

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

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PUBLIC UTILITIES
COMMISSION

In the Matter of the Application)
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 of)
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 HAWAIIAN BEACHES WATER)
 COMPANY, INC.)
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 For review and approval of rate)
 increases; revised rate schedules.)
)

Docket No. 2009-0161

**STIPULATION OF SETTLEMENT AGREEMENT IN LIEU OF
REBUTTAL TESTIMONIES**

EXHIBITS HBWC-A THROUGH HBWC-C

AND

CERTIFICATE OF SERVICE

MICHAEL H. LAU, ESQ.
KRIS N. NAKAGAWA, ESQ.
SANDRA L. WILHIDE, ESQ.
Moriwara Lau & Fong LLP
841 Bishop Street, Suite 400
Honolulu, Hawaii 96813
Telephone: (808) 526-2888
Facsimile: (808) 566-0800

Attorneys for
HAWAIIAN BEACHES WATER
COMPANY, INC.

JON S. ITOMURA, ESQ.
LANE H. TSUCHIYAMA, ESQ.
335 Merchant Street, Room 326
Honolulu, Hawaii 96813
Telephone: (808) 586-2800
Facsimile: (808) 586-2780

Attorneys for DIVISION OF CONSUMER
ADVOCACY, DEPARTMENT OF
COMMERCE AND CONSUMER AFFAIRS

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**STIPULATION OF SETTLEMENT AGREEMENT
IN LIEU OF REBUTTAL TESTIMONIES**

WHEREAS, HAWAIIAN BEACHES WATER COMPANY, INC. ("HBWC" or "Applicant") and the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS (the "Consumer Advocate") are the only parties in the subject docket (Applicant and the Consumer Advocate are hereinafter together referred to as the "Parties");

WHEREAS, after extensive review, discovery, analyses and discussions, the Parties have, for the purposes of the proceeding in the subject docket, reached a final stipulated agreement on all issues;

WHEREAS, the Parties desire and have entered into this Stipulation of Settlement Agreement ("Stipulation") to formally memorialize their proposed resolution of all issues in the subject docket;

WHEREAS, the Parties agree that this Stipulation shall be in lieu of Applicant filing Rebuttal Testimonies to the Consumer Advocate's Direct Testimony and Exhibits, filed on October 27, 2009, and any further discovery amongst the Parties; and

WHEREAS, the Parties understand and acknowledge that the Commission is not bound by this Stipulation between the Parties, and that this Stipulation is subject to the review and approval of the Commission.

NOW, THEREFORE, the Parties, by and through their respective attorneys, do hereby enter into this Stipulation as mutually acceptable to each.

I. PROCEDURAL BACKGROUND

On July 17, 2009, Applicant filed its general rate case application ("Application") in the subject docket requesting Commission review and approval of rate increases and revised rate schedules, pursuant to Hawaii Revised Statutes ("HRS") § 269-16(f), as amended by Act 168, 2004 Session Laws of Hawaii. Pursuant to HAR § 6-61-91(b), on that same date, copies of the Application were duly served upon the Consumer Advocate.¹

On August 6, 2009, the Consumer Advocate filed its Preliminary Statement of Position Regarding Completeness of Application ("Preliminary Statement of Position") informing the Commission that, among other things, it does not object to the completeness of the Application.² The Consumer Advocate also stated that it does not

¹ As stated in the Application, Applicant has annual gross revenues amounting to less than \$2,000,000. As such, Applicant is subject to the requirements of HAR §§ 6-61-88 and 6-61-91(b). See also Order Regarding Completed Application and Other Initial Matters, issued on August 24, 2009 in this docket.

² The Consumer Advocate noted in its Preliminary Statement of Position that Applicant did not specifically state in its Application, as required by HAR § 6-61-75(a)(7), whether it had paid dividends during the five previous years, and further, did not provide, as set forth in HAR § 6-61-75(3), all the details

object to Applicant's request contained in its Application for a modification of the requirement set forth in HAR § 6-61-75(b)(1) to allow Applicant to submit unaudited financial statements instead of audited financial statements, provided that Applicant agrees to make available for review all documentation supporting Applicant's financial statements, including all accounting books and records.

On August 13, 2009, pursuant to a proposed Stipulation for Protective Order entered into between the Parties and filed on July 27, 2009, the Commission issued a Protective Order setting forth the procedures for dealing with privileged and confidential information that may be requested and/or filed in the subject docket.

By letter filed with the Commission on August 18, 2009, pursuant to the Protective Order issued in this docket on August 13, 2009, Applicant submitted Confidential Workpapers HBWC 10.1, HBWC 11 and HBWC 11.1 as referenced in the Application.

On August 24, 2009, the Commission issued a letter to the Parties informing them that a public hearing on the Application was scheduled by the Commission for September 21, 2009, at Keonepoko Elementary School, 15-890 Kahakai Boulevard, Pahoa, Hawaii, 96778, and providing a copy of the Notice of Public Hearing and the scheduled dates of publication in accordance with HRS §§ 269-12 and 269-16.

On August 24, 2009, the Commission issued its Order Regarding Completed Application and Other Initial Matters approving Applicant's request to submit unaudited

of the mortgages and security interest identified on Exhibit HBWC 2, Schedule 3. The Consumer Advocate noted, however, that details of the mortgage and security interest were filed by Applicant on June 13, 2007 in Docket No. 2006-0042, which financial arrangements were approved by the Commission in Decision and Order No. 23513, issued on June 27, 2007.

financial statements in lieu of an audited balance sheet required under HAR § 6-61-75(b)(1), provided that Applicant makes available for review all documentation supporting its financial statements, including all accounting books and records. The Commission also found, among other things, that the Application was complete and properly filed under HRS § 269-16(f) and HAR § 6-61-88, with a completed application filing date of date of July 17, 2009.

On September 14, 2009, Applicant filed a letter informing the Commission that, pursuant to HRS § 269-12(c), Applicant's customers were notified of the public hearing scheduled for September 21, 2009 in the subject docket by means of a customer notice mailed on September 2, 2009. A copy of the customer notice was provided to the Commission with said September 14, 2009 letter.

On September 21, 2009, pursuant to HRS §§ 269-12 and 269-16, a public hearing was held at Keonepoko Elementary School on the proposed rate increases wherein the Commission heard oral testimony regarding the proposed rate increases.³

On October 8, 2009, the Parties filed a proposed Stipulated Procedural Order setting forth their proposed issues, procedures and stipulated regulatory schedule to govern the proceedings in the subject docket. The Stipulated Regulatory Schedule ("Regulatory Schedule"), attached as Exhibit "A" to the Stipulated Procedural Order, provided for the submission of information requests ("IRs") and responses to IRs. In addition, it provided for the submission of direct and rebuttal testimonies.

³ By letter dated September 24, 2009, the Commission provided the Parties with a full set of written testimony and comments received at the public hearing and placed into the record by the Commission.

On October 26, 2009, the Commission issued its Order adopting, without modification, the proposed Stipulated Procedural Order, filed on October 8, 2009 ("Procedural Order").

Pursuant to the Regulatory Schedule approved by the Procedural Order, the Consumer Advocate submitted detailed formal discovery to obtain information supportive of its independent investigation of the Application, and Applicant has provided extensive responses to these discovery requests.⁴ Consistent with footnote 2 of the Regulatory Schedule, the Consumer Advocate formally filed its First Submission of IRs (CA-IR-1 to 23) on October 9, 2009. Applicant formally filed a complete set of responses to those IRs on October 16, 2009, and also formally filed its supplemental responses to those IRs on the same date.

On October 27, 2009, based on information provided in the Application and during the discovery process described above, the Consumer Advocate filed its written Direct Testimony, Exhibits, and Workpapers ("Direct Testimony"), setting forth its position on Applicant's requests as set forth in the Application.

By letter dated November 2, 2009, the Parties filed a Joint Request to temporarily suspend Procedural Steps Nos. 7 to 9⁵ ("Joint Request") as set forth in the

⁴ Consistent with the Regulatory Schedule approved by the Procedural Order, the Consumer Advocate issued its First Submission of IRs on Applicant on September 25, 2009. Applicant provided the Consumer Advocate with responses to these IRs within 14 days or no later than 21 days after issuance. Specifically, by letter dated September 25, 2009, the Consumer Advocate submitted its first set of IRs (CA-IR-1 through CA-IR-23) to Applicant. By letter dated October 9, 2009, Applicant submitted to the Consumer Advocate its responses and/or preliminary responses to the first set of IRs. By letter dated October 12, 2009, Applicant submitted to the Consumer Advocate its supplemental responses to portions of the first set of IRs (CA-IR-3, 17, and 22).

⁵ Procedural Steps Nos. 7 to 9 are, respectively, as follows: (1) HBWC's submission of IRs to the Consumer Advocate by Monday, November 2, 2009; (2) the Consumer Advocate's responses to HBWC's IRs by Monday, November 9, 2009; and (3) HBWC's rebuttal testimonies on Monday, November 16, 2009.

Regulatory Schedule approved by the Procedural Order, pending completion of the Parties' settlement discussions. By letter dated November 10, 2009, the Commission approved the Parties' Joint Request.⁶

Because the Parties believed that the differences between the Consumer Advocate's positions set forth in its Direct Testimony and Applicant's requested amount of rate relief could possibly be resolved through direct discussions, negotiations and the provision of additional information, the Parties began such discussions. In doing so, the Parties recognized that considerable time and expense could be saved and the Commission's review of the subject docket could be expedited if an agreement on all issues could be reached between the Parties.

As a result of the various informal discussions and conference calls between the Parties since the Consumer Advocate's filing of its Direct Testimony, the Parties have been able to globally resolve all issues in the subject docket and have agreed to enter into this Stipulation rather than proceed with further discovery and the filing by Applicant of Rebuttal Testimonies.⁷

II. STATEMENT OF THE STIPULATED ISSUES

As set forth in the Procedural Order issued by the Commission, the issues in the subject docket are as follows:

⁶ The Commission treated the Parties' Joint Request as a motion for extension of time to complete the procedural steps ("Motion") pursuant to HAR §§ 6-61-23 and 6-61-41.3, and upon a finding of good cause granted the Motion.

⁷ This Stipulation is being filed in compliance with Procedural Step No. 10 of the Regulatory Schedule approved by the Procedural Order, and in lieu of Procedural Steps Nos. 7 to 9 of said Regulatory Schedule. As a result, the Parties agree that their November 2, 2009 joint request to temporarily suspend Procedural Steps Nos. 7 to 9 is no longer necessary and should, therefore, be deemed moot.

1. Are HBWC's proposed rate increases reasonable?
 - a. Are the proposed tariffs, rates and charges just and reasonable?
 - b. Are the revenue forecasts for the January 1, 2010 through December 31, 2010 Test Year ("Test Year") at present rates and proposed rates reasonable?
 - c. Are the projected operating expenses for the Test Year reasonable?
 - d. Is the projected rate base for the Test Year reasonable, and are the properties included in the rate base used or useful for public utility purposes?
 - e. Is the rate of return requested fair?

With respect to the above-stated issues in the subject docket, the Parties have agreed to the various revenue and rate components and matters discussed in Section III (Stipulated Matters), and in that connection, have stipulated that each of the above-stated issues should be answered in the affirmative based on the stipulated matters and numbers further discussed below.

III. STIPULATED MATTERS IN GENERAL

The Parties have agreed that the following provisions of this Stipulation are binding between them with respect to the resolution of the specific issues and matters previously of disagreement in the subject docket. In all respects, it is understood and agreed that the agreements evidenced in this Stipulation represent the Parties' agreement to fully and finally resolve all issues in the subject docket on which they previously had differences for the purpose of simplifying and expediting this proceeding.

and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters stipulated to herein. The Parties reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated to herein in other dockets or proceedings.

Furthermore, the Parties agree that nothing contained in this Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or be used as evidence of either Parties' position in any future regulatory proceeding, except as necessary to enforce this Stipulation.

III.A. SUMMARY OF STIPULATION

Exhibits HBWC-A, HBWC-B and HBWC-C attached hereto show Applicant's revenue requirement, operating expenses, operating income, rate base and return on rate base for the Test Year resulting from this Stipulation and identify adjustments and explain each of the Parties' changes.

As shown on Exhibit HBWC-A attached hereto, this Stipulation results in a \$230,502⁸ increase in Test Year revenues from present rates and a revenue requirement for Applicant of \$869,616. See Exhibit HBWC-A (page 1, line 37, column 1 and line 7, column 3, respectively). Page 1 of Exhibit HBWC-A also shows the operating revenues, operating revenue deductions (i.e., operating expenses), rate base and rate of return at present and proposed stipulated rates, respectively, that result from the stipulation between the Parties.

⁸ The differences between some of the numbers in Exhibits HBWC-A, HBWC-B and HBWC-C attached to the Stipulation are due to rounding differences in the methods of calculation and reconciling certain operating revenues numbers. The revenue increase required of \$230,502 is slightly different from the revenue increase at proposed rates due to rounding in the calculation of revenue at proposed rates which produces a revenue increase of \$230,496 as shown on Exhibit HBWC-A (page 1, line 7, column 2).

As can be seen on Exhibit HBWC-A, page 1, the result of this Stipulation is to allow Applicant an opportunity to seek a return of reasonable expenses and earn a return on investment (i.e., net operating income). Once settlement was reached on the operating expenses, rate base, and resulting revenue requirement mentioned above, the Parties reached a settlement on rate design. See Section III.F. (Rate Design).

III.B. REVENUE

As shown on line 7, column 3 of Exhibit HBWC 6 of the Application, Applicant originally sought a Test Year revenue requirement of \$949,434 in its Application. In its Direct Testimony, the Consumer Advocate proposed a Test Year revenue requirement amount of \$855,084. See Exhibit CA-101 (line 7, column 3) of the Consumer Advocate's Direct Testimony ("CA-T-1"). As set forth on page 1 of Exhibit HBWC-A attached hereto, the Parties settled on a Test Year revenue requirement amount of \$869,616 (line 7, column 3) [consisting of \$758,929 in total operating expenses, depreciation and taxes (line 29, column 3) plus \$110,687 in operating income after income taxes (line 30, column 3), based on an 8.3% stipulated rate of return (line 32, column 3 and line 33, column 1) on the stipulated average rate base amount of \$1,333,594 (line 31, columns 1 and 3)]. See Section III.E. (Rate of Return) below for a discussion of the 8.3% stipulated rate of return. This results in a required revenue increase of \$230,502 or approximately 36.066%, from revenues at present rates. See Exhibit HBWC-A (page 1, line 37, column 1 and line 38, column 2, respectively).

In deriving the Test Year proposed increase in revenues from present rates needed to meet the stipulated revenue requirement of \$869,616, the Parties were first

required to determine the Test Year revenues at present rates, as discussed further below.

1. Revenues at Present Rates.

As shown on line 7, column 1 of Exhibit HBWC 6 of the Application, Applicant projected total Test Year revenue at present rates in the amount of \$639,132, consisting of revenues for water service provided to Applicant's customers based on a flat monthly water rate of \$48.06 and a water usage charge. The flat monthly rate is adjusted based on an electric power cost adjustment clause (Exhibit HBWC 4, page 2).

In its Direct Testimony, the Consumer Advocate recommended a total Test Year revenue amount at present rates of \$639,120. See CA-T-1 (pages 6 to 11) for a discussion of the Consumer Advocate's adjustments; see also Exhibit CA-101 (line 7, column 1) of CA-T-1.

a. Projected Customer Count for Test Year.

In its Application, Applicant proposed a projected count of 1,105 customers at December 31, 2010, with an average customer count of 1,103 for the Test Year. See Exhibit HBWC 11 (lines 14 and 15, column 2) of the Application. To determine the average customer count for the Test Year, Applicant started with the actual number of customers at June 30, 2009 (i.e., 1,100 customers) and included five additional new customers it believes will require service from July 1, 2009 through December 31, 2010.⁹ In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to this customer count after reviewing the data provided by the Applicant and information from real estate websites. See CA-T-1 (page 7). As a

⁹ See Exhibit HBWC 11 of the Application.

result, the Parties have agreed to a projected customer count of 1,103 for the Test Year. See Exhibit HBWC-A (page 9, line 15, column 2).

b. Customer Water Usage Revenue for the Test Year

With respect to Applicant's Test Year usage revenue at present rates, Applicant utilized forecasted water usage for the Test Year of approximately 7,918,000 gallons per month ("gpm"), which is based on the actual water usage for each of its customers for the months March 2009 through July 2009. See Exhibit HBWC 11 (line 15, column 3) of the Application. In its last rate case, Applicant indicated that it would initiate a meter installation program to convert from a flat rate system to a volumetric rate system. Applicant was required to file a new rate proceeding on the earlier of (a) six (6) months after it completed its meter installation program or (b) when sufficient data was available for Applicant to propose and support a rate design that included a volumetric rate component. See Proposed Decision & Order No. 23423, filed on May 8, 2007, in Docket No. 2006-0442.

Since its last rate case, the installation of new water meters, as well as the replacement of some of the old meters has resulted in meter reading data beginning in June 2008. During this period, Applicant discovered a fairly large number of leaks in the water system, the vast majority of which occurred on the customers' side of the meter. For those customers with suspected leaks, Applicant attempted to work closely with them to get the leaks repaired. While it took some time to get customers to repair their leaks, Applicant was not successful in getting all of them to undertake the expense

of repairing their water lines.¹⁰ The Consumer Advocate expressed concern with using only four months of water data (i.e., March to June 2009) as the base monthly water usage, and therefore recommended using instead the most recent twelve-month meter readings from October 2008 through September 2009 to determine average monthly water consumption for each customer. See CA-T-1 (page 10). The Consumer Advocate noted: (1) Applicant's four months of data does not take into account seasonal changes as it relates to rain levels and may not be a reasonable basis for developing normalized estimates; (2) in general, the meter readings from July 2008 through June 2009 do not have unusually high readings and can be used to determine Test Year water usage; and (3) water consumption of several customer accounts appear to decrease significantly, which could be related to the repair of leaks. As such, the Consumer Advocate contended that utilizing data from the October 2008 through September 2009 timeframe would take into account the seasonal rain levels and the recent customer repairs to address leaks. Further, the Consumer Advocate noted that while it still had concerns regarding using only one year of meter reading data, because several of Applicant's customers were in the process of repairing leaks associated with their pipes and because Applicant planned to file another rate application based on additional water consumption data, it believed that use of this data was the most reasonable at this time. Applying this analysis, the Consumer Advocate recommended water consumption for the Test Year of approximately 9,722,300 gpm. See CA-T-1 (page 10); see also Exhibit CA-107 of CA-T-1.

¹⁰ Several customers indicated that because of cost, they would not make any repairs to their lines until the Commission approved volumetric rates and the Applicant started charging those rates.

During settlement discussions, Applicant disagreed with the Consumer Advocate's use of 9,722,300 gpm for purposes of determining Test Year monthly water consumption on the basis that it: (1) overstated actual current usage for several customers who have taken action in recent months to substantially reduce their water usage; (2) did not recognize the fact that many customers have acknowledged leaks in their service lines which are causing excess water usage, but have stated they do not intend to repair these leaks until the volumetric rates based on water usage become effective; and (3) did not take into account the reduced usage that will likely occur from conservation efforts by customers as a result of the implementation of volumetric rates and the increase in customers' monthly bills from the imposition of use-based charges. Applicant strongly believed that these three elements would result in a substantial reduction in monthly customer usage, and, in turn, in the revenue it would receive once the usage-based rates went into effect. In lieu of adopting the Consumer Advocate's proposed amount, Applicant provided additional usage information to support reduction of the Consumer Advocate's proposed usage projection related to five specific high usage customers. Based on the additional data provided by Applicant, the Consumer Advocate agreed to adjust the usage for two of the five customers proposed by Applicant. Each of the two customers and the resulting settlement reached amongst the Parties regarding these customers' monthly water usage is separately discussed below:

- (1) Customer #3-0023-0 – A significant leak on the customer's side of the meter was fixed by the customer in the middle of September 2009, which reduced the meter reading for the

month of September by approximately one-half. The October meter reading confirmed that the leak was repaired, and a separate reading in the month of November confirmed the reduction in water usage. As the recent meter readings are significantly less than the limited historical usage for this customer, this appears to confirm the repair of the leak. While the amount of data after the leak repair is limited, it is reasonable to expect some decrease in usage. Thus, for the purposes of settlement, the Consumer Advocate agreed to use the new usage data as the basis for the monthly use for this customer.

- (2) Customer #3-0557-0 – This customer's meter, which was installed in the mid 1990s, was first read in December 2008 with an initial reading of approximately 1,327,800 gallons. Subsequent meter readings showed a nine-month average monthly usage of approximately 31,000 gallons. In calculating the average monthly usage for this customer, the Consumer Advocate inadvertently included the initial reading of 1,327,800 gallons for the month of December 2008. After confirming the above, the Consumer Advocate agreed to use the nine months of meter readings and accepted an average monthly usage of 30,916 gpm for this customer.

Upon review of the above two settlement adjustments to the average monthly water usage for each of the customers, the Consumer Advocate accepted for settlement purposes Test Year monthly customer water usage total of 9,264,100 gpm. While Applicant believes that overall water usage will continue to trend lower once all customer leaks are repaired and the impact of the implementation of volumetric rates take effect, Applicant nevertheless accepted that monthly usage for settlement. As a result, the Parties have agreed to adopt an average monthly customer water usage amount of 9,264,100 gpm for the Test Year. See Exhibit HBWC-A (page 9, line 15, column 3).

c. Total Revenues at Present Rates.

Based upon the Parties' stipulated projected customer count, the Parties have agreed to a total Test Year revenue amount at present rates of \$639,120. See Exhibit HBWC-A (page 1, line 7, column 1 and page 9, line 17, column 5). Because Applicant's existing rates reflect only a flat monthly charge and it would be implementing usage-based rates, the Parties also agreed to the average monthly water usage of 9,264,100 gpm for use in establishing the usage-based portion of the proposed rates as reflected on Exhibit HBWC-A (page 9, line 15, column 3).

III.C. OPERATING EXPENSES

Applicant's operating expenses, as set forth in the Application, consist generally of the following categories: (1) purchased electricity; (2) salaries and wages, and related payroll taxes and employee benefits; (3) accounting services; (4) insurance; (5) auto and truck expense; (6) postage; (7) legal and professional expenses; (8) communications; (9) office supplies expense; (10) rate case amortization; (11) repair

and maintenance; (12) capitalized non-payroll expenses; (13) taxes; (14) depreciation; and (15) amortization of CIAC.

In its Application, Applicant proposed total operating and maintenance ("O&M") expenses in the Test Year of \$584,627 at present and proposed rates. See Exhibit HBWC 6 (line 23, column 1 and 3, respectively) of the Application. The Consumer Advocate noted that of the fifteen line items comprising the total, seven of the items accounted for 97.5% of the total projected expenses. See CA-T-1 (page 13). In fact, four items (salaries and wages, payroll taxes and employee benefits; electricity expense and rate case expense) comprised 83.1% of total O&M expenses. As such, the Consumer Advocate focused its analysis on the largest expenses. See CA-T-1 (pages 13-22). Based on its analysis, the Consumer Advocate proposed total Test Year O&M expenses of \$552,858. See CA-101 (line 23, columns 1 and 3) of CA-T-1.

After conducting its review and analysis of Applicant's expenses, the Consumer Advocate made certain adjustments to Applicant's O&M expense items contained within the Application for various reasons. See CA-T-1 (pages 12-38) for a discussion of the Consumer Advocate's adjustments and Exhibit CA-101 of CA-T-1 for a listing of adjusted expense items. As set forth on Exhibit HBWC-A attached hereto, the Parties have agreed on an amount of \$552,858 for Applicant's Test Year total O&M expenses at present and proposed rates. See Exhibit HBWC-A (page 1, line 23, columns 1 and 3). A discussion of each of the O&M expense items for Applicant's water operations and the agreement reached between the Parties on each of these expense items follows:

1. Electricity Expense.

In its Application, Applicant proposed a total Test Year expense amount for purchased electricity of \$104,400. See Exhibit HBWC 6 (line 8, column 1) and Exhibit HBWC 10.3 (line 7, column 7) of the Application. The electricity expense represents the expense borne by Applicant to operate the two well pumps and related components on Applicant's system. As noted in Exhibit HBWC 10.3 of the Application, the total Test Year expense amount for purchased electricity of \$104,400 is wholly comprised of pumping electricity expense, and is calculated using Applicant's average monthly kilowatt hours ("kWh") of 30,000 kWh for the well pump multiplied by the average kWh rate for the months of January through June 2009. See Exhibit HBWC 10.3 of the Application.

In its Direct Testimony, the Consumer Advocate noted that Applicant's average monthly kWh was not based on historical data, and acknowledged Applicant's stated concerns with using historical data due to the following: (1) decreased average electricity usage since 2007, due to decreased water consumption from fixed leaks; (2) use of a generator during a six-week period when the new electric facilities and well were being completed; and (3) decreased future electricity usage due to efficiency associated with operation of the new well. See CA-T-1 (pages 13-15). Based on these concerns, the Consumer Advocate recognized that it would be difficult to determine Test Year electricity usage based solely on historical data, and because a comparison of Applicant's estimated kWh usage with electricity usage for the three-month period of July to September 2009 resulted in a monthly average 30,352 kWh, the Consumer Advocate concluded that Applicant's kWh estimate did not appear to be unreasonable.

See CA-T-1 (page 15). Accordingly, the Consumer Advocate did not object to nor recommend any adjustment to Applicant's purchased electricity expense.

As a result, the Parties agreed upon a total Test Year amount for purchased electricity of \$104,400. See Exhibit HBWC-A (page 1, line 8, column 3).

2. Salaries and Wages, and Related Payroll Taxes and Benefits.

In its Application, Applicant proposed Test Year expenses of \$228,032 for salaries and wages (HBWC 10.1, line 10, column 7), and \$57,391 for related payroll taxes and employee benefits (HBWC 10.2, line 35, column 7) (totaling \$285,423). See Exhibit HBWC 6 (column 3, lines 9 and 10, respectively) of the Application.

In its Direct Testimony, the Consumer Advocate proposed a total Test Year amount of \$279,854 for salaries and wages and related payroll taxes and employee benefits. See Exhibit CA-106 of CA-T-1. The Consumer Advocate contended that, in general, Applicant's salaries and wages appeared to be reasonable and at compensation levels that were comparable to other Hawaii workers in their occupational class. See CA-T-1 (pages 16-17). However, the Consumer Advocate contended that based on current economic conditions Applicant's proposed three percent wage increase on January 1, 2010 did not seem reasonable, especially given that a wage increase had only recently gone into effect on July 1, 2009. See CA-T-1 (pages 17-18). As a result, the Consumer Advocate recommended disallowing the January 1, 2010 wage increase. In so recommending, the Consumer Advocate noted that it had also considered disallowing the July 1, 2009 wage increase, but determined that because the wage increase was the first in four years and the employee compensations appeared comparable to the compensations of other Hawaii workers, the first pay

increase in July 1, 2009 seemed reasonable. See CA-T-1 (page 18). Based on the above adjustment to disallow the January 1, 2010 wage increase and the adjustments to payroll taxes and employee benefits that result from the same, the Consumer Advocate proposed a Test Year expense amount of \$222,477 for salaries and wages, and \$57,377 for related payroll taxes and employee benefits. See Exhibit CA-106 (page 1, line 10, column 4 and page 2, line 35, column 7, respectively) of CA-T-1.

Applicant agreed for settlement purposes to forego including the wage increase for January 1, 2010 and accepted the Consumer Advocate's proposed adjustment to salaries and wages and adjustment to payroll taxes associated with disallowing the wage increase. As a result, the Parties have agreed to a total Test Year expense amount for salaries and wages, and related payroll taxes and employee benefits of \$279,854. See HBWC-A (page 1, lines 9 and 10, column 3).

3. Accounting Services.

In its Application, Applicant proposed a Test Year expense amount for accounting services of \$14,000. See Exhibit HBWC 6 (line 11, column 3) and Exhibit HBWC 10.4 (line 5, column 7) of the Application. Accounting expenses represent the cost of services provided to Applicant by an outside accountant for the preparation of quarterly financial statements as required by Applicant's lenders, as well as preparation of annual reports, tax returns and related depreciation and other tax-related documents. See Exhibit HBWC-T-100 (page 31) of the Application.

In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to this amount. See Exhibit CA-101 (line 11, column 3) of CA-T-1. As

a result, the Parties have agreed to a Test Year expense amount for accounting services of \$14,000. See Exhibit HBWC-A (page 1, line 11, column 3).

4. Insurance.

In its Application, Applicant proposed a Test Year expense amount for insurance of \$31,604. See Exhibit HBWC 6 (line 12, column 3) and Exhibit HBWC 10.5 (line 7, column 7) of the Application. As set forth in its Application, Applicant increased the current annual policy premiums for each coverage type by 5.0 percent over the 2009 premiums to reflect an anticipated increase in these costs. See HBWC-T-100 (pages 31-32) of the Application.

In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to this amount. See Exhibit CA-101 (line 11, column 3) of CA-T-1. As a result, the Parties have agreed to a Test Year expense amount for insurance of \$31,604. See Exhibit HBWC-A (page 1, line 12, column 3).

5. Auto and Truck Expense.

In its Application, Applicant proposed a Test Year expense amount for auto and truck expense of \$15,000. See Exhibit HBWC 6 (line 13, column 3) and Exhibit HBWC 10.6 (line 8, column 7) of the Application. Applicant indicated that the capitalized portion of these expenses were included in the non-payroll expenses capitalized (Exhibit HBWC 10.13 of the Application), and further, represented that it believed that \$15,000 was a reasonable amount for this expense because the non-capital portion of this expense amount is expected to increase in the Test Year due to monthly meter readings being required. See HBWC-T-100 (page 32) of the Application.

In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to this amount. See Exhibit CA-101 (line 13, column 3) of CA-T-1. As a result, the Parties have agreed to a Test Year auto and truck expense amount of \$15,000. See Exhibit HBWC-A (page 1, line 13, column 3).

6. Postage.

In its Application, Applicant proposed a Test Year expense amount for postage of \$6,000. See Exhibit HBWC 6 (line 14, column 3) and Exhibit HBWC 10.7 (line 6, column 7) of the Application. The expense represents the estimated cost of postage for mailing out the monthly bills and other information to customers. In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to this amount. See Exhibit CA-101 (line 14, column 3) of CA-T-1. As a result, the Parties have agreed to a Test Year expense amount for postage of \$6,000. See Exhibit HBWC-A (page 1, line 14, column 3).

7. Legal and Professional Services.

In its Application, Applicant proposed a Test Year expense amount for legal and professional services of \$2,000. This expense represents the estimated cost of non-rate case legal and professional services Applicant utilizes. See Exhibit HBWC 6 (line 15, column 3) and Exhibit HBWC 10.8 (line 6, column 7) of the Application. The Consumer Advocate did not object to nor recommend any adjustments to this amount in its Direct Testimony. See Exhibit CA-101 (line 15, column 3) of CA-T-1. As a result, the Parties have agreed to a Test Year expense amount for legal and professional services of \$2,000. See Exhibit HBWC-A (page 1, line 15, column 3).

8. Communications.

In its Application, Applicant proposed a Test Year expense for communications in the amount of \$6,400. See Exhibit HBWC 6 (line 16, column 3) and Exhibit HBWC 10.9 (line 6, column 7) of the Application. As noted in Exhibit HBWC 10.9 of the Application, the communications expense is comprised of expenses related to the telephone (landline, wireless, and internet) and answering services.

The Consumer Advocate did not object to nor recommend any adjustments to this amount in its Direct Testimony. See Exhibit CA-101 (line 16, column 3) of CA-T-1. As a result, the Parties have agreed to a Test Year communications expense amount of \$6,400. See Exhibit HBWC-A (page 1, line 16, column 3).

9. Office and Supplies Expense.

In its Application, Applicant proposed a Test Year expense amount for office and supplies expense of \$23,400. See Exhibit HBWC 6 (line 17, column 3) and Exhibit HBWC 10.10 (line 10, column 7) of the Application. As noted in the Testimony of Robert L. O'Brien, office and supplies expense charges include expenses for office supplies, office electric, bank charges (i.e., fixed and per use charges incurred for accepting credit card payments), and data processing expenses. See HBWC-T-100 (pages 32-33) of the Application.

The Consumer Advocate did not object to nor recommend any adjustments to this amount in its Direct Testimony. See Exhibit CA-101 (line 17, column 3) of CA-T-1. As a result, the Parties have agreed to a Test Year expense amount for office and supplies expense of \$23,400. See Exhibit HBWC-A (page 1, line 17, column 3).

10. Rate Case Amortization.

In its Application, Applicant proposed an estimated total rate case expense of \$192,000. See Exhibit HBWC 10.11 (line 19, column 2) of the Application. This amount represented the total regulatory expense projected to be incurred to complete the different phases of the rate case proceeding (e.g., preparation and filing of Application, discovery and settlement, and hearings and briefing). See Exhibit HBWC 10.11 of the Application. Applicant proposed a Test Year rate case expense of \$96,000, which is based on the estimated total rate case expense of \$192,000, which would be amortized over a two-year period. See Exhibit HBWC 6 (line 18, column 3).

In its Direct Testimony, the Consumer Advocate proposed a Test Year expense amount for rate case amortization of \$69,800, by making several adjustments to remove certain expenses. See Exhibit CA-101 (line 18, column 3) and Exhibit CA-106 of CA-T-1.

a. Preparation and Filing.

First, with regard to the preparation and filing phase of the proceeding, the Consumer Advocate proposed a downward adjustment to \$64,600 to reflect, as indicated in the response to CA-IR-17(a), the actual costs incurred in this phase of the proceeding, which was lower than Applicant's estimate of \$72,000. See CA-T-1 (page 19) and Exhibit CA-106 (line 5, column 2) of CA-T-1. During settlement discussions, Applicant accepted the Consumer Advocate's proposal to adjust the expenses for this phase to reflect actual costs. As a result, the Parties have agreed to a Test Year expense amount for the preparation and filing phase of \$64,600. See Exhibit HBWC-A (page 8, line 5, column 2).

b. Discovery and Settlement.

With regard to Applicant's estimated discovery and settlement expenses, the Consumer Advocate proposed to remove the costs associated with travel and other non-labor costs (i.e., \$2,000) for this phase of the proceeding. See CA-T-1 (pages 19-20) and Exhibit CA-106 (lines 8 and 9, column 2) of CA-T-1. The Consumer Advocate proposed to remove these two cost items because: (1) these costs were not necessary for the preparation and filing phase of the proceeding; and (2) the work associated with this phase can be done through telephone conference calls and electronic media, thereby eliminating the need to travel to respond to discovery. See CA-T-1 (pages 19-20). During settlement discussions, Applicant accepted the Consumer Advocate's adjustment to remove the travel and other non-labor cost items associated with the discovery and settlement phase of the proceeding. As a result, the Parties have agreed to a Test Year expense amount of \$0 for travel and other non-labor costs associated with this phase of the proceeding, and thus, a Test Year expense amount for the discovery and settlement phase of \$75,000. See Exhibit HBWC-A (page 8, line 10, column 2).

c. Hearings and Briefing.

Finally, the Consumer Advocate proposed to remove all of the costs associated with the hearings and briefing phase of the proceeding (i.e., \$43,000). See CA-T-1 (pages 20-21) and Exhibit CA-106 (line 15, column 2) of CA-T-1. The Consumer Advocate noted that an evidentiary hearing would only be required if Applicant did not accept the proposed decision and order. As a result, the Consumer Advocate contended that the costs associated with the evidentiary hearing and preparation of

post hearing briefs should be removed from the Test Year rate case expense and resulting amortization, since such costs will not be incurred in the event of a global settlement and in the absence of an evidentiary hearing. The Consumer Advocate provided that if Applicant ultimately objected to the proposed decision and order, a contested schedule would be established and the projected rate case could then be adjusted to include some level of cost for the hearing and briefing phase. See CA-T-1 (pages 20-21). During settlement discussions, Applicant accepted the Consumer Advocate's adjustment to remove all of the costs associated with this phase of the proceeding. As a result, the Parties have agreed to a Test Year expense amount for the hearings and briefing phase of the proceeding of \$0. See Exhibit HBWC-A (page 8, line 15, column 2).

d. Amortization Period.

As noted above, Applicant proposed a two year amortization of the total rate case expense. The Consumer Advocate indicated that because a two-year period would allow Applicant to record additional customer water consumption data, it would not take issue with and was willing to accept the two-year amortization period proposed by Applicant. See CA-T-1 (pages 21-22); see also Exhibit HBWC-A (page 8, line 18, column 2).

e. Total Rate Case Amortization.

As a result of the agreed-upon adjustments described above, the Parties have agreed to a Test Year expense amount for rate case amortization of \$69,800. See Exhibit HBWC-A (page 1, line 18, column 3 and page 8, line 19, column 2).

11. Repair and Maintenance.

In its Application, Applicant proposed a Test Year expense amount for repair and maintenance of \$4,400. See Exhibit HBWC 6 (line 19, column 3) and Exhibit HBWC 10.12 (line 8, column 7) of the Application. In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to this amount. See Exhibit CA-101 (line 19, column 3) of CA-T-1. As a result, the Parties have agreed to a Test Year expense amount for repair and maintenance of \$4,400. See Exhibit HBWC-A (page 1, line 19, column 3).

12. Capitalized Non-Payroll Expense.

In its Application, Applicant proposed a Test Year expense for non-payroll and benefits expenses that were capitalized in the amount of (\$4,000). See Exhibit HBWC 6 (line 21, column 3) and Exhibit HBWC 10.13 (line 2, column 7) of the Application. As noted in the testimony of Mr. O'Brien, these expenses include transportation, office supplies, and repair and maintenance, which are estimated based on ratios and are related mainly to the installation of meters and meter boxes. See HBWC-T-100 (page 35) of the Application. Applicant anticipates a significant reduction in these capitalized expenses as meter installations have basically been completed, although some meter work is still expected in 2010. In addition, flushing valves and other equipment will be installed on the distribution system.

In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to this amount. See Exhibit CA-101 (line 21, column 3) of CA-T-1. As a result, the Parties have agreed to a Test Year expense amount of (\$4,000) for capitalized non-payroll expense. See Exhibit HBWC-A (page 1, line 21, column 3).

13. Taxes.

a. Taxes – Other Than Income.

Applicant's taxes other than income taxes ("TOTIT"), consists of: (1) the State Public Service Company Tax, which is calculated at 5.885% of revenues; and (2) the State Public Utility Fee, which is calculated at 0.500% of revenues. In its Application, Applicant estimated the combined TOTIT at \$40,809 for present rates and \$60,621 for proposed rates. See Exhibit HBWC 6 (line 24, columns 1 and 3) and Exhibit HBWC 8 (line 7, columns 4 and 5, respectively) of the Application. Because the Consumer Advocate recommended a different revenue requirement, its estimate of the proposed TOTIT at proposed rates was \$54,597. See Exhibit CA-101 (line 24, column 3) of CA-T-1.

The Parties were in agreement as to the methodology and tax rates to be used to calculate the Test Year taxes TOTIT. As stated, the difference between the Parties on their TOTIT projection at proposed rates resulted from the differing revenue requirement recommendations. As a result of the Parties' stipulation on the revenue requirement, the Parties have correspondingly agreed upon the TOTIT amount of \$55,521 at proposed rates for the Test Year. See Exhibit HBWC-A, page 1 (line 24, column 3) and page 4 (line 10, column 5) attached hereto.

b. Income Taxes.

The Parties were also in agreement as to the methodology and tax rates to be used to calculate the Test Year expense amount for income taxes. Any differences between the Parties' income tax projections similarly resulted from their differing revenue requirement projections. See Exhibit HBWC 6 (line 27, columns 1 and 3) of

the Application and Exhibit CA-101 (line 27, columns 1 and 3) of CA-T-1. As a result of their agreement on Applicant's revenue requirement, the Parties have agreed on an income tax amount of \$52,501 at proposed rates for the Test Year. See Exhibit HBWC-A, page 1 (line 27, column 3) and page 3 (line 23, column 7) attached hereto.

14. Depreciation.

In its Application, Applicant proposed a Test Year expense amount for depreciation of \$118,237. See Exhibit HBWC 6 (line 25, column 3) of the Application. In its Direct Testimony, the Consumer Advocate expressed concern with the depreciation rates for the plant items described as Wells and Reservoirs & Tanks. Specifically, the Consumer Advocate proposed that the depreciation rate for the well portion of these plants items (which totaled approximately \$697,055 in total cost) be adjusted from 0.05 (i.e., 20 years) to a rate of 0.0250 (i.e., 40 years) to reflect a longer estimated service life as originally estimated in Docket No. 2006-0442. See CA-T-1 (page 27) and Exhibit CA-105 (page 5, lines 4 and 12, column 4) of CA-T-1. Based on its proposed adjustment to the depreciation rates for these plant items, the Consumer Advocate proposed an adjusted Test Year depreciation expense amount of \$100,810. See Exhibit CA-101 (line 25, column 3) of CA-T-1.

During settlement discussions, Applicant provided an itemization of the equipment included in well costs (i.e., \$697,055) and proposed to separate the plant items into various plant categories. Based on the information provided in settlement, Applicant and the Consumer Advocate agreed to break out the components of the Wells and Reservoirs & Tanks plant items into five plant categories, including Structures, Wells, Piping, Pumping Equipment, and Storage. As a result, the Parties

have agreed upon a Test Year amount for depreciation expense of \$110,623. See Exhibit HBWC-A (page 1, line 25, column 3); see also Exhibit HBWC-B (page 6, column 1) for the agreed-upon distribution of plant item components and the depreciation rates utilized for each component.¹¹

15. Amortization of Contributions in Aid of Construction ("CIAC").

In its Application, Applicant proposed a Test Year expense amount for amortization of CIAC of (\$5,703). See Exhibit HBWC 6 (line 26, column 3) of the Application. In its Direct Testimony, the Consumer Advocate proposed a Test Year expense amount for amortization of CIAC of (\$12,573). See CA-101 (line 26, column 3) of CA-T-1. The difference between the Parties' respective amounts was due to the Consumer Advocate's proposed adjustment to increase the CIAC amount to be deducted from rate base to include CIAC payments received since the Applicant's last rate case, which the Applicant had incorrectly classified as revenue. This adjustment was accepted by Applicant and is discussed further in Section III.D.6. As a result, the Parties agreed to adjust the Test Year expense amount for amortization of CIAC to (\$12,573). See Exhibit HBWC-A (page 1, line 26, column 3).

III.D. RATE BASE

Exhibit HBWC-B (pages 1-2) attached hereto sets forth the Parties' agreed-upon average rate base calculations for Applicant's Test Year. In general, Applicant's rate base consists of its net plant-in-service (i.e., plant-in-service minus accumulated depreciation), less accumulated deferred income taxes ("ADIT"), unamortized Hawaii

¹¹ It should be noted that although categorization of the various plant components was changed to reflect the appropriate depreciation lives, the plant-in-service total costs of \$1,915,978 remained unchanged.

Capital General Excise Tax Credit ("HCGETC"), customer deposits and CIAC, plus working cash. As set forth on page 1 of Exhibit HBWC-B (line 14, column 3), as a result of this Stipulation, the Parties have agreed upon a Test Year average rate base of \$1,333,594. See also Exhibit HBWC-A (page 1, line 31, columns 1 and 3). In doing so, the Parties came to a stipulated agreement on each of the rate base components discussed below:

1. Net Plant-in-Service.

Exhibit HBWC-B (page 1, line 3, column 3) attached hereto shows the average Test Year net utility plant-in-service amount resulting from this Stipulation. As set forth therein, the Parties have agreed for purposes of settlement to an end-of-year 2009 net plant-in-service amount of \$1,535,759 (line 3, column 1) and an end-of-year 2010 net plant-in-service amount of \$1,467,399 (line 3, column 2). Mathematically, the two totals are added together and divided by two to derive an average 2010 Test Year net plant-in-service amount of \$1,501,579 (line 3, column 3). A discussion of the components of Applicant's net plant-in-service follows:

a. Plant-in-Service.

As shown in Exhibit HBWC 9 of its Application, Applicant's end-of-year 2009 plant-in-service amount was \$1,873,716 (line 1, column 1) and end-of-year 2010 plant-in-service amount was \$1,915,979 (line 1, column 2), resulting in an average Test Year plant-in-service amount of \$1,894,848.¹² In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to Applicant's

¹² This amount was calculated by taking the average of the plant-in-service at the end of December 31, 2009 (i.e., \$1,873,716) and 2010 (i.e., \$1,915,979) as shown on Exhibit HBWC 9 (line 1, columns 1 and 2) of the Application.

plant-in-service amounts. As a result, the Parties have agreed to an average Test Year plant-in-service amount of \$1,894,847.¹³ See HBWC-B (page 1, line 1, column 3).

b. Accumulated Depreciation.

As shown in Exhibit HBWC 9 of its Application, Applicant's end-of-year 2009 accumulated depreciation amount was \$341,764 (line 2, column 1) and end-of-year 2010 accumulated depreciation amount was \$460,001 (line 2, column 2), resulting in an average Test Year accumulated depreciation amount of \$400,883.¹⁴ In Exhibit CA-105 of CA-T-1, the Consumer Advocate recommended an end-of-year 2009 accumulated depreciation amount of \$333,051 (page 1, line 2, column 1) and end-of-year 2010 accumulated depreciation amount of \$433,861 (page 1, line 2, column 2), resulting in an average Test Year accumulated depreciation amount of \$383,456 (page 1, line 2, column 3). The differences between the Parties' respective amounts were the result of the Consumer Advocate's proposed adjustments to Applicant's Test Year amount for depreciation expense. As discussed further above in Section III.C.14, the Parties agreed to an adjusted Test Year depreciation expense amount.

Exhibit HBWC-B (page 1, line 4, column 2) correctly reflects the corresponding adjustment to accumulated depreciation expense that results from the Parties' stipulated depreciation expense amount. As a result, the Parties have agreed to an average Test Year accumulated depreciation amount of \$393,268. See Exhibit HBWC-B (page 1, line 2, column 3).

¹³ The difference between the proposed and stipulated average Test Year plant-in-service amounts is due to rounding differences.

¹⁴ This amount was calculated by adding the accumulated depreciation at the end of December 31, 2009 (i.e., \$341,764) and 2010 (i.e., \$460,001) as shown on Exhibit HBWC 9 (line 2, columns 1 and 2) of the Application and dividing the resulting sum by two.

2. Excess Capacity.

Applicant did not propose an excess capacity factor in its Application. While the Consumer Advocate in its Direct Testimony similarly did not propose an excess capacity factor, it expressed a concern regarding its uncertainties of what level of Applicant's plant facilities may not be used and useful during the Test Year. See CA-T-1 (pages 26-27). Specifically, the Consumer Advocate stated that based on the maximum daily demand of the system in addition to the required fire flow as compared to the capacity of the distribution system as calculated by the County of Hawaii Department of Water, it appeared that approximately 16.44% of Applicant's well, pumping, water treatment facilities and associated structures may be deemed as excess. See CA-105 (page 10) of CA-T-1. Further, the Consumer Advocate noted that it was uncertain what the recommended fire flow was for the system, and recommended that Applicant provide fire flow information to it and the Commission for an assessment of whether there is excess capacity on Applicant's system.

During settlement discussions, Applicant informed the Consumer Advocate that it has not been successful in receiving a determination from the local fire department of the fire flow requirement for Applicant's system. In addition, Applicant contended that it did not believe there was excess capacity in its water supply given that the 16.44% calculated by the Consumer Advocate was well within planning purposes. Although Applicant has not been able to provide the fire flow information, based on the excess capacity factor calculated on the maximum daily demand alone, the Consumer Advocate agreed for settlement purposes to withdraw its issue related to excess capacity in the instant rate proceeding. However, the Consumer Advocate reserves its

right to address this issue in future rate proceedings based on current water usage data information, and the Applicant agrees to commit to keeping appropriate detailed records to facilitate any excess capacity analysis.

3. Accumulated Deferred Income Taxes ("ADIT").

ADIT is the difference in income tax liability computed for financial statement purposes versus income tax return purposes. As shown on Exhibit HBWC 9 of the Application (line 4), Applicant's end-of-year 2009 ADIT amount was \$26,806 (column 1) and end-of-year 2010 ADIT amount was \$27,401 (column 2), resulting in an average Test Year ADIT amount of \$27,104.¹⁵ In its Direct Testimony, the Consumer Advocate proposed an end-of-year 2009 ADIT amount of \$22,170 (line 4, column 1) and end-of-year 2010 ADIT amount was \$26,999 (line 4, column 2), resulting in an average Test Year ADIT amount of \$24,585 (line 4, column 3). See Exhibit CA-105 (page 1) of CA-T-1. The differences between the Parties' respective amounts were the result of the Consumer Advocate's proposed adjustments to Applicant's Test Year expense amount for depreciation and a small difference in the effective composite income tax rate used in the calculation of the ADIT. As discussed further above in Section III.C.14, the Parties agreed to an adjusted Test Year depreciation expense amount.

Exhibit HBWC-B (page 1, line 4, column 3) correctly reflects the corresponding adjustment to ADIT that results from the Parties' stipulated depreciation expense amount. As a result, the Parties have agreed to an average Test Year ADIT amount of

¹⁵ This amount was calculated by taking the average of the ADIT at the end of December 31, 2009 (i.e., \$26,806) and 2010 (i.e., \$27,401) as shown on Exhibit HBWC 9 (line 4, columns 1 and 2) of the Application.

(\$21,384), which amount is a deduction from the Test Year average rate base. See Exhibit HBWC-B (page 1, line 4, column 3).

4. Unamortized Hawaii Capital General Excise Tax Credit ("HCGETC").

The HCGETC was enacted in 1987 under HRS § 235-110.7. Generally, the HCGETC provides a tax credit of four percent (4%) of the purchase price or construction cost of qualifying plant and equipment used in a trade or business.

As shown on Exhibit HBWC 9 of the Application (line 6), Applicant's end-of-year 2009 HCGETC amount was \$21,279 (column 1) and end-of-year 2010 HCGETC amount was \$20,610 (column 2), resulting in an average Test Year HCGETC amount of \$20,944.¹⁶ In its Direct Testimony, the Consumer Advocate proposed an adjustment to Applicant's HCGETC amount to recognize the credit that should have been taken on the well and tank additions that were installed in 2009. See Exhibit CA-T-1 (page 31). Specifically, the Consumer Advocate proposed an end-of-year 2009 HCGETC amount of \$48,813 (line 6, column 1) and end-of-year 2010 HCGETC amount of \$47,446 (line 6, column 2), resulting in an average Test Year HCGETC amount of \$48,129 (line 6, column 3). See CA-105 (page 1) of CA-T-1.

During settlement discussions, Applicant acknowledged that in preparing its Application, it inadvertently failed to include the credit for these plant additions and accepted the Consumer Advocate's adjustment to the HCGETC amount. Furthermore, the HCGETC was revised to reflect the depreciation rates agreed in settlement. As a result, the Parties have agreed to an average Test Year HCGETC amount of (\$47,737),

¹⁶ This amount was calculated by taking the average of the HCGETC at the end of December 31, 2009 (i.e., \$21,279) and 2010 (i.e., \$20,610) as shown on Exhibit HBWC 9 (line 6, columns 1 and 2) of the Application.

which amount is a deduction from the Test Year average rate base. See Exhibit HBWC-B (page 1, line 6, column 3).

5. Customer Deposits.

As shown on Exhibit HBWC 9 of the Application (line 7), Applicant's end-of-year 2009 customer deposits amount was \$11,462 (column 1) and end-of-year 2010 customer deposits amount was \$11,462 (column 2), resulting in an average Test Year customer deposits amount of \$11,462.¹⁷ The Consumer Advocate did not object to nor recommend any adjustments to these amounts in its Direct Testimony. See Exhibit CA-105 (page 1, line 7) of CA-T-1. As a result, the Parties have agreed to an average Test Year customer deposits amount of (\$11,462), which amount is a deduction from the Test Year average rate base. See Exhibit HBWC-B (page 1, line 7, column 3).

6. Contributions in Aid of Construction (CIAC).

CIAC are customer monetary or facility contributions to a company to help defray the costs incurred to install plant, property and equipment. In the instant rate case proceeding, Applicant's schedule reflects the projected amount of CIAC that would be collected for new water service connections in 2009 and 2010. See Exhibit HBWC 9.7 (lines 3 and 10, column 1). In Exhibit HBWC 9 of its Application, Applicant's end-of-year 2009 CIAC total was \$73,009 (line 8, column 1) and end-of-year 2010

¹⁷ This amount was calculated by taking the average of the customer deposits at the end of December 31, 2009 (i.e., \$11,462) and 2010 (i.e., \$11,462) as shown on Exhibit HBWC 9 (line 7, columns 1 and 2) of the Application.

CIAC amount was \$73,307 (line 8, column 2), resulting in an average Test Year CIAC balance of \$73,158 (line 8, column 3).¹⁸ See Exhibit HBWC 9 of the Application.

In its Direct Testimony, the Consumer Advocate proposed an adjusted end-of-year 2009 CIAC amount of \$136,760 (line 8, column 1) and end-of-year 2010 CIAC amount of \$130,186 (line 8, column 2), resulting in an average Test Year CIAC balance of \$133,473 (line 8, column 3). See Exhibit CA-105 (page 1) of CA-T-1. Specifically, the Consumer Advocate noted that the collected CIAC amount reflected in the response to CA-IR-8 (i.e., \$84,000 collected from July through December 2007 and \$27,000 collected in 2008), exceeded the CIAC balance at December 31, 2008 as shown on Exhibit HBWC 9.7 (i.e., \$70,500) of the Application. See CA-T-1 (page 30). Therefore, the Consumer Advocate recalculated the CIAC and unamortized CIAC beginning with the December 31, 2006 reflected in "Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies," filed April 4, 2007 in Applicant's prior rate proceeding (i.e., Docket No. 2006-0442) and recommended its CIAC adjustments based on these recalculations.

During settlement discussions, Applicant agreed that many of the CIAC payments collected had been incorrectly classified as revenue, and has since changed its accounting procedures to correctly reflect CIAC payments as part of the CIAC account. Accordingly, Applicant accepted the Consumer Advocate's adjustment to the CIAC balance. As a result, the Parties agreed to an average Test Year CIAC amount

¹⁸ This amount was calculated by taking the average of CIAC at the end of December 31, 2009 (i.e., \$73,009) and 2010 (i.e., \$73,307) as shown on Exhibit HBWC 9 (line 8, columns 1 and 2) of the Application.

of (\$133,473), which amount is a deduction from the Test Year average rate base. See Exhibit HBWC-B (page 1, line 8, column 3).

7. Working Cash.

Working cash represents the amount of money provided by the shareholders, over and above the investment in plant and other specific rate base items, in order for HBWC to meet current obligations incurred in providing service pending the receipt of revenues from those services. Applicant used the 1/12 methodology in calculating its working cash requirement. This method assumes that a company needs approximately one-month's worth of expenses (less non-cash expenses) to account for the lag between when expenses are to be paid and when revenues are to be collected. Using this methodology, Applicant proposed in its Application an average Test Year amount of \$48,719 for working cash.¹⁹ See Exhibit HBWC 9 (line 10, column 3) of the Application. In its Direct Testimony, the Consumer Advocate agreed to Applicant's methodology, but recommended adjustments to the working cash amount to reflect its proposed operating expense adjustments. See CA-T-1 (pages 32-33). Specifically, the Consumer Advocate proposed an amount equal to \$46,071 for working cash. See Exhibit CA-105 (page 1, line 10, column 3).

The Parties agreed during settlement discussions that the differences between the Parties' working cash amounts were due solely to the differing operating expense estimates projected by each. As a result of the Parties' stipulation and agreement herein on the Test Year operating expense projections, as discussed above, the Parties

¹⁹ This amount was calculated by taking the average of working cash at the end of December 31, 2009 (i.e., \$48,719) and 2010 (i.e., \$48,719) as shown on Exhibit HBWC 9 (line 10, columns 1 and 2).

have agreed to an average Test Year working cash amount of \$46,071, which amount is to be added to the Test Year average rate base. See Exhibit HBWC-B (page 1, line 12, column 3).

III.E. RATE OF RETURN

In its Application, Applicant proposed to increase the current rates to provide the utility with an opportunity to earn a 9.0% return on its Test Year average rate base. See Exhibit HBWC 6 (line 34, column 3) of the Application. Specifically, Applicant proposed an overall rate of return of 9.0% using a 50% equity/50% debt capital structure, which results in a return on common equity of 11.0% and a cost of debt of 7%. See HBWC-T-100 (pages 45-46) of the Application.

In its Direct Testimony, the Consumer Advocate noted that Applicant's proposed 9.0% rate of return was incongruent with what one would consider to be a reasonable level of return in the Test Year, given the current economic conditions and other market related observations. See CA-T-1 (pages 35-36). The Consumer Advocate referred, instead, to Docket No. 2008-0283 (Kohala Ranch Water Company) a small water utility rate case proceeding wherein the Consumer Advocate retained a cost of capital witness to perform a cost of capital analysis. The cost of capital witness determined that a reasonable rate of return for the utility was 8.10%. See CA-T-1 (pages 35-36). Based on the analysis performed by its cost of capital witness in Docket No. 2008-0283, the Consumer Advocate recommended a return on rate base for Applicant of 8.10%.²⁰ See Exhibit CA-101 (line 32, column 3) of CA-T-1.

²⁰ In Docket No. 2008-0283, the rate of return of 8.10% represented the mid-point of a range of 7.88% and 8.33% determined by Mr. Parcell.

During settlement discussions, Applicant disagreed that 8.10% was a reasonable return on rate base for Applicant. First, the exact conditions and factors that supported the use of 8.10% for that particular water utility in Docket No. 2008-0283 may not be entirely applicable to Applicant's situation. Second, based on Applicant's independent and preliminary analysis, Applicant contended that smaller water utilities such as HBWC require higher rates of return when compared to large publically traded water utilities used by the Consumer Advocate's cost of capital witness in Docket No. 2008-0283. In addition, Applicant stated its position that, in general, it faces higher risks than other small water utility companies in Hawaii and is struggling against adverse circumstances in that it is a stand-alone company owned and operated by two individuals who are unable to borrow funds without providing personal guarantees and who are unable to rely on affiliates to help support its operations. In support of this representation, Applicant noted that for the past 4 years, it has had ongoing cash flow problems and has operated at a loss, such that its owners have been forced to borrow funds from family members to continue operations. Applicant maintained, therefore, that it was imperative that it be allowed to earn a fair rate of return sufficient to cover the capital costs of operation and to assure confidence in the company's financial integrity. Notwithstanding the foregoing, in lieu of expending additional resources (e.g., both parties retaining their own and separate cost of capital expert witnesses) and time litigating this issue, Applicant proposed to utilize a return on rate base of 8.55%, which was between the 9.0% and the 8.10% recommended by Applicant and the Consumer Advocate, respectively.

After discussion between the Parties, taking into consideration Applicant's small size, the Consumer Advocate stated that it would be willing for settlement purposes to increase in its rate of return recommendation to 8.30%. Following further discussions on this matter, for settlement purposes, Applicant accepted the Consumer Advocate's recommended return on rate base of 8.30%, which would be based on the 50% equity/50% debt capital structure with a cost of debt of 7.00% and a cost of equity of 9.6% and was within the range proposed by the Consumer Advocate. See Exhibit HBWC-B (page 10). As such, the Parties have stipulated to a return on rate base of 8.30%. See Exhibit HBWC-A (page 1, line 33, column 1 and line 32, column 3). The Parties have also agreed, however, that the stipulated 8.30% return on rate base was for settlement purposes only, and shall not be deemed to set any precedent that may be applied against Applicant and/or the Consumer Advocate when seeking a different return on rate base in any future regulatory proceedings.

III.F. RATE DESIGN

Once the Parties reached an agreement upon the revenue, expense, rate base, and rate of return matters discussed above, the Parties focused their continued discussions and attention on an acceptable rate design to provide a reasonable opportunity for Applicant to earn the Test Year revenue requirement of \$869,616, representing a total revenue increase of \$230,496 over revenues at present rates, or approximately 36.066%. This is slightly different (i.e., \$6) from the \$230,502 revenue increase requirement shown on Exhibit HBWC-A (page 1, line 37) due to rounding of the volumetric rate per thousand gallons.

As set forth in its Application, Applicant offered a cost of service study (i.e., Exhibits HBWC 12 and HBWC 12.1 of the Application) to assist in developing an appropriate rate design. As explained in Mr. O'Brien's testimony (Exhibit HBWC-T-100 (pages 46 to 50) of the Application), the results of the cost of service study supported Applicant's initial opinion that the existing low usage customers were subsidizing higher usage customers (which included customers with suspected leaks on their property who are wasting water). To resolve the low-user subsidy issue, Applicant in its Application proposed a rate design which is comprised of a fixed monthly customer service charge of \$30.00, plus a volumetric monthly water consumption charge of \$5.7818 per thousand gallons of water used per month. See Exhibit HBWC 5 of the Application.

Applicant contended that the proposed change in rates is well supported and in the interest and fairness of all customers in that it would substantially reduce or eliminate any subsidy being provided by existing lower usage customers. Further, Applicant represented that under the proposed rate design, customers in the first two usage categories (i.e., up to monthly usage of approximately 5,000 gpm) would receive a decrease in their monthly water charge or a very small overall increase. More specifically, approximately 30-35% of all customers using less than 3,100 gpm would receive a decrease in their monthly water bill, which would eliminate subsidization by these customers of larger water users and water customers who have not repaired suspected leaks on their service lines. In addition, customers using up to 7,100 gpm (i.e., over 630 out of 1,100 customers) would have monthly bills at proposed rates at or below the overall system increase of 48.6%.

In its Direct Testimony, the Consumer Advocate did not object to nor recommend any adjustments to Applicant's rate design based on its proposed adjustments to revenue requirement and stated that it appreciated the purpose of initiating the volumetric charge in the instant proceeding in trying to establish rates that would allow each customer to pay its fair share of its water consumption. See CA-T-1 (page 37). Further, although the Consumer Advocate expressed general concern about the cost of water service and usage to many customers substantially increasing, it stated that it did not believe any significant adjustments could be made to resolve the concern. With regard to adjustments to Applicant's rate design, the Consumer Advocate indicated that because of time constraints and workload issues, it was not able to complete its review of whether the establishment of tiered volumetric rates would be reasonable at this time. Instead, it recommended that the Parties continue to review and work on the development of tiered rates. See CA-T-1 (page 39). The Consumer Advocate also was considering whether a phase-in of the rate increase should be proposed in this case.

During settlement discussions between the Parties, Applicant stated that it did not believe tiered rates or a phase-in of rates were appropriate under the circumstances. First, Applicant contended that it would be unfair to HBWC to delay the much needed revenue increase, which was contemplated in the rate case processed three years ago and was the result of actions taken by Applicant due to that case. Second, because this case will result in the initial establishment of usage rates and represent a significant increase to the higher users, implementing usage rates in and of itself will promote conservation and reduce customer usage prospectively. Third, all of

Applicant's customers, including customers with high usage, have been notified of and are fully aware of the fact that rates will be increasing and changing to a volumetric rate structure. Applicant had been informing its customers by providing monthly water usage data on the bills for most customers for the prior year, and further, had been working with high usage customers to verify their usage and to advise them of the potential water bills that would result from higher rates. In most instances, these customers would have had at least twelve months time to plan for the proposed increase in their water bills. Finally, any rate increase phase-in would deny low usage customers who would receive a decrease in their monthly water bill from a portion of this decrease during the phase-in period.

Based on the above, the Consumer Advocate agreed to withhold a determination of the issue of tiered rates in this proceeding, but to continue its efforts to assess the reasonableness of a phase-in of rates upon a determination of an overall revenue requirement as agreed to by the Parties. In response, Applicant stated that, for many of the same reasons stated above, it did not believe any phase-in of rates was appropriate. More importantly, any phase-in would penalize the low-usage customers by continuing to provide a subsidy to the higher users, which itself is contrary to the implementation of tiered rates to induce conservation. In addition, Applicant contended that it should not be penalized by not receiving its full revenue requirement in order to provide subsidies to large users, many of whom are wasting water because under the current flat rate charge they have not had to pay in proportion to the water they have used. As such, for settlement purposes, the Consumer Advocate agreed that a phase-in was not appropriate in this case.

The Parties' stipulated adjustments to the Test Year revenue requirement, resulted in different rates from what was proposed by Applicant in its Application. In connection with this, the following chart, based on Exhibit HBWC-A (page 9), shows Applicant's current rate design and the rate design stipulated to by the Parties for HBWC's water operations:

<u>Monthly Meter Charges</u>		
Residential (Single Family and Condominiums)	<u>Present Rate</u>	<u>Proposed Rate</u>
<u>Fixed Monthly Service Charge Per Unit</u>	\$ 48.06	\$ 30.00
<u>Monthly Water Consumption Charge per 1,000 gallons of water used per month</u>		\$ 4.2237

Applicant intends to use this rate design, if approved by the Commission, as an interim step toward the full cost of service rate design, as described in the cost of service study. See Exhibit HBWC 12 of the Application.

III.G. OTHER ISSUES/RECOMMENDATIONS

1. County Involvement.

The Consumer Advocate noted in its Direct Testimony that it considered, but did not recommend, that efforts to investigate the possible takeover of Applicant's water system by the County water department be taken at this time based on its understanding that Applicant's system does not meet County standards (i.e., distribution system pipes are too small). See CA-T-1 (page 38). Further, the Consumer Advocate noted that addressing such a problem would require significant investment,

which it did not believe could be borne by ratepayers during the current economic climate.

2. Quarterly Financial Reports.

In its Direct Testimony, the Consumer Advocate recommended, based on its concerns with Applicant's next rate proceeding, that Applicant file quarterly financial reports and actual customer water usage. See CA-T-1 (page 39). The Consumer Advocate contended that these reports will allow the Parties and the Commission to be prepared for the next filing and to determine if regulatory action prior to the next expected rate proceeding, is necessary. Applicant accepted the Consumer Advocate's recommendation and agreed to provide the Commission and Consumer Advocate with (a) updated monthly customer usage data and (b) quarterly financial reports on Applicant's operations.

As a result, the Parties agreed that Applicant would file (a) quarterly financial reports and (b) updated monthly customer water usage data with the Commission.

IV. GLOBAL SETTLEMENT OF ALL ISSUES

Each provision of this Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the Commission of the matters expressed in this Stipulation in their entirety. In the event the Commission declines to adopt parts or all of the matters agreed to by the Parties and as set forth in this Stipulation, the Parties reserve the right to pursue any and all of their respective positions through further negotiations and/or additional filings and proceedings before the Commission.

V. RECORD

The Parties agree that all filed direct testimonies, exhibits, workpapers, information requests, responses, and this Stipulation are part of the record in the subject docket, and that the Commission may take such steps and actions it deems necessary and appropriate to facilitate its review of this Stipulation, and to determine whether this Stipulation should be approved.

VI. GENERAL

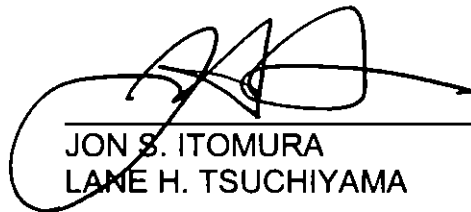
This Stipulation may be executed by the Parties in counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument. The Parties may execute this Stipulation by facsimile for initial submission to the Commission to be followed by the filing of originals of said facsimile pages.

DATED: Honolulu, Hawaii, November 23, 2009.



MICHAEL H. LAU
KRIS N. NAKAGAWA
SANDRA L. WILHIDE

Morihara Lau & Fong LLP
Attorneys for Applicant
HAWAIIAN BEACHES WATER
COMPANY, LTD.



JON S. ITOMURA
LANE H. TSUCHIYAMA

Attorney for DIVISION OF CONSUMER
ADVOCACY, DEPARTMENT OF
COMMERCE AND CONSUMER
AFFAIRS

EXHIBIT HBWC-A

Hawaiian Beaches Water Company
Revenue Requirements & Rate of Return Summary
Test Year Ending December 31, 2010

Line #	Description	[1] Present Rates	[2] Additional Amount	[3] Revenue At Proposed Rates
1	Flat Rate Month Charges	\$636,120	(\$636,120)	
2	APCAC Revenue	0		0
3	Monthly Customer Charges	0	397,080	397,080
4	Customer Usage Charges	0	469,536	469,536
5				0
6	Other Revenue	3,000		3,000
7	Total Operating Revenues	639,120	230,496	869,616
8	Purchased Electricity	104,400		104,400
9	Salaries & Wages	222,477		222,477
10	Employee Benefits & PR Taxes	57,377		57,377
11	Accounting	14,000		14,000
12	Insurance	31,604		31,604
13	Auto & Truck Expense	15,000		15,000
14	Postage	6,000		6,000
15	Legal & Professional	2,000		2,000
16	Communications	6,400		6,400
17	Office Supplies Expense	23,400		23,400
18	Rate Case Amortization	69,800		69,800
19	Repair & Maintenance	4,400		4,400
20	Bad Debt Expense	0		0
21	Capitalized Non-Payroll Expenses	(4,000)		(4,000)
22				
23	Total O&M Expenses	552,858	0	552,858
24	Taxes Other than Income Taxes	40,805	14,716	55,521
25	Depreciation	110,623		110,623
26	Amortization of CIAC	(12,573)		(12,573)
27	Income Taxes	0	52,501	52,501
28				
29	Total Operating Expenses	691,712	67,217	758,929
30	Operating Income	(\$52,592)	\$163,279	\$110,687
31	Average Rate Base	\$1,333,594	\$0	\$1,333,594
32	Return on Rate Base	-3.94%		8.300%
33	Target Rate of Return (ROR)	8.30%		
34	Increase in ROR	12.24%		
35	Increase in Net Operating Income	\$163,281		
36	Gross Revenue Conversion Factor	1.41169		
37	Revenue Increase	\$230,502		
38	Percent Revenue Increase		36.066%	

Hawaiian Beaches Water Company
Revenue Requirements Support
Test Year Ending December 31, 2010

Line #	Description	[1] Amount	[2] Amount	[3] Amount	[4] Amount	[5] Amount
1	Gross Revenue Factor					
2	Additional Revenue		1.000000			
3	Less:					
4	Bad Debts	0.000000				
5	Public Service Company tax	0.058845				
6	PUC Fee	0.005000				
7	Franchise	0.000000	0.063845			
8	Subject to Income Tax					
9	Less:		0.936155			
10	State Income Tax	0.052500				
11	Federal Income Tax	0.190821				
12		0.243321	0.227786			
13	Remaining for Net Income		0.708369			
14	Expense for each \$1 of Revenue		0.291631			
15	Factor for Moving Rate Base					
16	= (1-Bad Debt%-Revenue Taxes-Income tax on Addl. Revenue)					
17		0.708368292				
18	Revenue Factor	1.411693963				
Additional Revenue Requirements						
19	Settlement Rate of Return				8.30%	
20	Multiply rate base @ present rates by the above ROR				110,688	
21	Subtract the net income @ present rates from the above net income				163,280	
22	Divide the above difference by the moving rate base factor to					
23	determine the additional revenue requirements @ the ROR				230,501	
24	Multiply the add'l revenues by the bad debt factor				0	
25	Multiply the add'l revenues by the revenue tax factor				14716	
26	Multiply the add'l revenues by the inc tax on add'l revenue				52505	
27	Total Expenses at Proposed Rates				758,929	
28	Subtract total expense from total revenues @ proposed rates				110,687	
29	Subtract NI before WC change from NI after WC change				(1)	
30	Divide change in NI by desired rate of return					
31	Calculate change in rate base				1,333,594	
32	Test - Divide NI by rate base				8.30%	
33	Total Base Rate Increase	RR L 39	\$230,502		\$230,496	\$6
34	Revenue At Present Rates	RR L 1		\$636,120		
35	Revenue Increase Required	RR L 39		230,502		
36	Total TY Revenue Requirement	L 34 + L 35		866,622		
37	Proposed Monthly Charges	Exh HBWC 11		397,080		
38	Proposed Revenue From Usage Charges	L 36 - L 37			\$469,542	
39	Total TY Water Sales in 000 gallons	Exh HBWC 11	9,264	x 12 =	111,170	
40	Rate per 000 gallons	L 38 / L 39				\$4.2237
41	Percent Increase	L 35 / L 34			36.235%	

Hawaiian Beaches Water Company
Income Tax Expense
Test Year Ending December 31, 2010

Line #	Description	[1] Tax Rates	[2] Taxable Amounts			[5] Income Taxes		
			[3] Present Rates	[4] Revenue Increase	[6] Proposed Rates	[7] Present Rates	[8] Revenue Increase	[9] Proposed Rates
1	Total Revenues					639,120	230,496	869,616
2	Total Operations & Maintenance Expenses					552,858	0	552,858
3	Depreciation					110,623	0	110,623
4	Amortization of CIAC					(12,573)	0	(12,573)
5	Taxes Other than Income Taxes					40,805	14,716	55,521
6	Total Operating Expenses					691,712	14,716	706,428
7	Operating Income before Income Taxes					(52,592)	215,780	163,188
8	Interest Expenses					0	0	0
9	State taxable income					(52,592)	215,780	163,188
10	State income tax	Less:						
11	less than \$25K	4.4%	25,000	25,000	25,000	0	1,100	1,100
12	Over \$25K, but less than \$100K	5.4%	75,000	75,000	75,000	0	4,050	4,050
13	Over \$100K	6.4%		115,780	63,188	0	7,410	4,044
14	State income Taxes					0	12,560	9,194
15	Federal taxable income					(52,592)	203,220	153,994
16	Federal income tax							
17	less than \$50K	15.0%	50,000	50,000	50,000	0	7,500	7,500
18	Over \$50K, but less than \$75K	25.0%	25,000	25,000	25,000	0	6,250	6,250
19	Over \$75K, but less than \$100K	34.0%	25,000	25,000	25,000	0	8,500	8,500
20	Over \$100K, but less than \$335K	39.0%	235,000	103,220	53,994	0	40,258	21,057
21	Over \$335K	34.0%				0	0	0
22	Federal income Taxes					0	62,508	43,307
23	Total Federal and State income taxes					0	75,068	52,501
24	Effective Tax Rate					0.0000%	34.7882%	32.1722%
25	State					0.0000%	5.8211%	5.8340%
26	Federal					0.0000%	28.967%	26.5382%

Hawaiian Beaches Water Company
Taxes Other Than Income Taxes
Test Year Ending December 31, 2010

Line #	Description	[1] Revenues at Present Rates	[2] Revenues at Proposed Rates	[3] Tax Rates	[4] Taxes at Present Rates	[5] Taxes at Proposed Rates
<u>Revenue Taxes</u>						
1	Public Service Company Tax	\$639,120	\$869,616	5.885%	\$37,609	\$51,173
2	(Pursuant to HRS § 239)					
3	Public Utility Fee	639,120	869,616	0.500%	3,196	4,348
4	(Pursuant to HRS § 269-30)					
5	Franchise Tax (applicable to electric companies only)			2.500%		
6	(Pursuant to HRS § 240)					
7	Total Revenue Taxes				<u>40,805</u>	<u>55,521</u>
<u>Other Taxes</u>						
8	Other Taxes					0
9	Total Other Taxes				<u>0</u>	<u>0</u>
10	Total Taxes Other Than Income Taxes				<u><u>\$40,805</u></u>	<u><u>\$55,521</u></u>

Hawaiian Beaches Water Company
Historical Summary
Test Year Ending December 31, 2010

Line #	Description	[1] 2007 # 2006-0442 Settlement	[2] Year Ended 12/31/07	[3] Year Ended 12/31/08	[4] 5-Months Ended 5/31/09	[5] 7-Months Ended 12/31/09	[6] Year Ended 12/31/09	[7] Present Rates Test Year 12/31/10
Revenues								
1	Service Revenue							
2	Flat Rate Month Charges	\$688,294	\$420,755	\$641,557	\$270,000	\$360,000	\$630,000	\$636,120
3								
4	APCAC Revenue							
5								
6	Monthly Customer Charges							
7								
8	Customer Usage Charges							
9	Total Usage Revenue	688,294	420,755	641,557	270,000	360,000	630,000	636,120
Other Revenue								
10								
11	Finance Charges	1,000		1,000	450	550	1,000	1,000
12	Other Revenue	2,000		2,000	900	1,100	2,000	2,000
13	TOTAL WATER REVENUES	691,294	420,755	644,557	271,350	361,650	633,000	639,120
Expenses								
14	Purchased Electricity	184,785	147,395	185,691	45,359	89,641	135,000	104,400
15	Salaries & Wages	178,264	190,526	207,640	87,500	122,500	210,000	222,477
16	Employee Benefits & PR Taxes	38,792	26,395	25,722	13,000	17,000	30,000	57,377
17	Accounting	10,119	2,842	9,979	6,400	5,600	12,000	14,000
18	Insurance	17,658	17,064	25,867	11,375	15,925	29,340	31,604
19	Auto & Truck Expense	11,000	18,214	20,853	4,600	6,440	11,040	15,000
20	Postage	6,626	7,820	4,627	1,750	2,950	4,700	6,000
21	Legal & Professional	4,000	4,497	1,444	0	0	0	2,000
22	Communications	3,000	5,075	5,960	2,225	3,675	5,900	6,400
23	Office Supplies Expense	9,500	13,089	25,468	9,720	12,230	21,950	23,400
24	Rate Case Amortization	31,375	22,109	44,218	18,424	25,794	44,218	69,800
25	Repair & Maintenance	12,600	6,902	2,464	1,685	2,359	4,044	4,400
26	Bad Debt Expense	0	0	0	0	0	0	0
27	Capitalized Non-Payroll Expenses	0	(2,737)	(30,597)	(5,000)	(2,000)	(7,000)	(4,000)
28	Taxes Other than Income Taxes	44,139	20,247	38,126	17,326	23,091	40,417	40,805
29	Depreciation	66,047	30,076	37,154	30,000	50,132	80,132	110,623
30	Amortization of CIAC		(1,313)	(3,075)	(1,500)	(3,603)	(5,103)	12,573
31								
32	TOTAL EXPENSES	\$ 617,905	\$ 508,201	\$ 601,541	\$ 242,864	\$ 371,735	\$ 616,638	\$ 716,859
33	OPERATING INCOME BEFORE TAXES	\$ 73,389	\$ (87,446)	\$ 43,016	\$ 28,486	\$ (10,085)	\$ 16,362	\$ (77,739)

Hawaiian Beaches Water Company
Salaries & Wages
Test Year Ending December 31, 2010

Line #	Description	Ref:	[1] 2007 # 2006-0442 Settlement	[2] Year Ended 12/31/07	[3] Year Ended 12/31/08	[4] Present Rates Test Year 12/31/10
	<u>Salaries & Wages</u>					
1	Salaried		\$110,528	\$96,640	\$127,800	\$123,476
2	Hourly		\$67,736	\$93,886	\$79,840	\$94,286
3	Overtime and Callout	5.0%				\$4,714
4	Total Payroll		<u>\$ 178,264</u>	<u>\$ 190,526</u>	<u>\$ 207,640</u>	<u>\$ 222,477</u>
5	Wage Increase Dates					
6	Percent Increase in base wages					
7	Total for 6 employees from Workpaper HBWC 10.1					\$238,588
8	Charged to Construction	WP 10.1	Salaried		15.0%	(8,158)
9	Charged to Construction	WP 10.1	Hourly		15.0%	(12,667)
10	Overtime & Callout	L 3	Hourly			4,714
10	Total Test Year Expense					<u>\$222,477</u>

Note. The difference in the 2007 and 2008 year-end salaries and wages are a result of the different capitalization factors for those years.

Hawaiian Beaches Water Company
Employee Benefits & PR Taxes
Test Year Ending December 31, 2010

Line #	Description	[1]	[2]	[3]	[4]	[5]	[6]	[7]
		2007 # 2006-0442 2007	Year Ended 12/31/07	Year Ended 12/31/08	5-Months Ended 5/31/09	7-Months Ended 12/31/09	Year Ended 12/31/09	Present Rates Test Year 12/31/10
1	Total Expense	\$38,792	\$26,395	\$25,722	\$13,000	\$17,000	\$30,000	
2	Test Year Expense							\$ 57,377
				# of Empl				
FICA TAX EXPENSE								
3	Total Test Year S & W				\$ 222,477			
4	Test Year S & W over Maximum				0			
5	Taxable Test Year S & W	L 3 - L 4			\$ 222,477			
6	Tax Rate					7.650%		
7	Test Year FICA Taxes						\$ 17,019	
FEDERAL UNEMPLOYMENT INSURANCE								
8	Total Test Year S & W				\$ 222,477			
9	Test Year S & W over Maximum		\$ 7,000		(180,477)			
10	Taxable Test Year S & W	L 8 + L 9			\$ 42,000			
11	Tax Rate			6		0.800%		
12	Test Year FUI Taxes						336	
STATE UNEMPLOYMENT INSURANCE								
13	Total Test Year S & W				\$ 222,477			
14	Test Year S & W over Maximum		\$ 4,000		(198,477)			
15	Taxable Test Year S & W	L 13 + L 14			\$ 24,000			
16	Tax Rate			6		0.400%		
17	Test Year SUI Taxes						96	
TDI								
18	Total Test Year S & W				\$ 222,477			
19	Test Year S & W over Maximum		\$ 3,000		(204,477)			
20	Taxable Test Year S & W	L 18 + L 19			\$ 18,000			
21	Tax Rate			6		0.460%		
22	Test Year TDI Taxes						83	
EMPLOYEE BENEFITS								
			Monthly Expense Per Employee		No. Of Months	Annual Cost		
23	HMSA Rate - Single Coverage	7-1-09 Rate	\$407.50	4	12	\$ 19,560		
24	HMSA Rate - 2 Party Coverage	7-1-09 Rate	\$804.80	1	12	9,658		
25	HMSA Rate - Family Coverage	7-1-09 Rate	\$1,202.10	1	12	14,425		
26	Increase At 7-1-10		7.74%		6	1,688		
27	Other							
28	TOTAL BENEFITS	Sum L 23 to L 26					45,331	
29	Sub-Total						62,865	
30	Total Benefits and PR Tax							
CHARGE TO CONSTRUCTION								
31	Payroll to Construction	Exh 10.1			\$20,825			
32	Total Payroll	Exh 10.1			\$ 238,588			
33	Percent Expensed	L 31 / L 32				8.73%		
34	Benefits & PR Taxes Capitalized	L 29 * L 33					\$ (5,488)	
35	TOTAL	L 29 + L 34						\$ 57,377

Hawaiian Beaches Water Company
Rate Case Amortization
Test Year Ending December 31, 2010

		[1]		[2]	
Line #	Description	Ref:	Amount	Test Year	
<u>PREPARATION AND FILING</u>					
1	Rate case consulting			37500	
2	Legal			27100	
3	Travel				
4	Other non-labor				
5	subtotal			<u>64,600</u>	*actual (response to CA-IR-17)
<u>DISCOVERY AND SETTLEMENT</u>					
6	Rate case consulting		25,000		
7	Legal		50,000		
8	Travel		0		
9	Other non-labor		<u>0</u>		
10	subtotal			75,000	
<u>HEARINGS AND BRIEFING</u>					
11	Rate case consulting		0		
12	Legal		0		
13	Travel		0		
14	Other non-labor		<u>0</u>		
15	subtotal			0	
16	Total			<u>139,600</u>	
17	Total to be Recovered			139,600	
18	Amortization Period			2	
19	Test Year expense			<u><u>\$69,800</u></u>	

Hawaiian Beaches Water Company
Test Year Ending December 31, 2010
PRO FORMA REVENUE CALCULATIONS - Customer Monthly Charge

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
Line #	Description # in Gallons	Reference Or Factor	Number Of Customers	Average Monthly Usage Per Customer (000) gal	PRESENT RATES			PROPOSED RATES					Percent Increase Decrease
					Monthly Customer Charge Revenue	Annual Customer Charge Revenue	Monthly Customer Charge Revenue	Monthly Usage Revenue	Number of Months	Annual Revenue		Total	
										Customer Charge	Usage Charge		
					<u>\$48.06</u>	<u>12</u>	<u>\$30.00</u>	<u>\$4.2237</u>					
<u>CUSTOMERS AT 9-30-09</u>													
1	Customers Using 0 to 1,000		80	0.422	\$ 3,845	\$ 46,140	\$ 2,400	\$ 143	12	\$ 28,800	\$ 1,716	\$ 30,516	-33.9%
2	Customers Using 1,001 to 5,000		326	2.988	15,668	188,016	9,780	4,115	12	117,360	49,380	166,740	-11.3%
3	Customers Using 5,001 to 10,000		413	7.217	19,849	238,188	12,390	12,589	12	148,680	151,068	299,748	25.9%
4	Customers Using 10,001 to 15,000		157	12.166	7,545	90,540	4,710	8,067	12	56,520	96,804	153,324	69.3%
5	Customers Using 15,001 to 25,000		90	18.617	4,325	51,900	2,700	7,077	12	32,400	84,924	117,324	126.1%
6	Customers Using over 25,000		34	48.609	1,634	19,608	1,020	6,980	12	12,240	83,760	96,000	389.6%
7			<u>1,100</u>	<u>9.227</u>	<u>52,866</u>	<u>634,392</u>	<u>33,000</u>	<u>38,971</u>		<u>396,000</u>	<u>467,652</u>	<u>863,652</u>	<u>36.1%</u>
<u>ADDITIONAL CUSTOMERS TO 12-31-09</u>													
8	Customers Using 5,001 to 10,000		0	7.217	0	0	0	-	12	-	-	-	
9	Customers Using 10,001 to 15,000		1	12.166	48	576	30	51	12	360	612	972	68.8%
10	Customers Using 15,001 to 25,000		0	18.617	0	0	0	-	12	-	-	-	
<u>ADDITIONAL CUSTOMERS TO 12-31-10</u>													
11	Customers Using 5,001 to 10,000		1	7.217	48	288	30	30	6	180	180	360	25.0%
12	Customers Using 10,001 to 15,000		2	12.166	96	576	60	103	6	360	618	978	69.8%
13	Customers Using 15,001 to 25,000		1	18.617	48	288	30	79	6	180	474	654	127.1%
14	TOTAL ALL		<u>1,105</u>	<u>37.2</u>	<u>\$ 53,106</u>	<u>\$ 636,120</u>	<u>\$ 33,150</u>	<u>\$ 39,234</u>		<u>\$ 397,080</u>	<u>\$ 469,536</u>	<u>\$ 866,616</u>	<u>36.2%</u>
15	Total Average Customers		<u>1,103</u>	<u>9,264.1</u>									
16	Other Revenue					<u>3,000</u>						<u>3,000</u>	
17	TOTAL REVENUE					<u>\$ 639,120</u>						<u>\$ 869,616</u>	<u>\$ 230,496</u>

EXHIBIT HBWC-B

Hawaiian Beaches Water Company
Average Rate Base
Test Year Ending December 31, 2010

		[1]	[2]	[3]
Line #	Description	At Dec. 31, 2009	At Dec. 31, 2010	Average
1	Plant In Service	\$1,873,715	\$1,915,978	\$1,894,847
2	Accumulated Depreciation	(337,956)	(448,579)	(393,268)
3	Net Plant-in-Service	1,535,759	1,467,399	1,501,579
Deduct:				
4	Accumulated Deferred Income Taxes	(20,243)	(22,525)	(21,384)
5				
6	HCGETC	(48,616)	(46,857)	(47,737)
7	Customer Deposits	(11,462)	(11,462)	(11,462)
8	CIAC	(136,760)	(130,187)	(133,473)
9	subtotal	(217,081)	(211,031)	(214,056)
Add:				
10	Working Cash	46,071	46,071	46,071
11		0	0	0
12	subtotal	46,071	46,071	46,071
13	Subtotal	\$1,364,749	\$1,302,439	
14	Rate Base at Proposed Rates			\$1,333,594

Hawaiian Beaches Water Company
Rate Base Support
Test Year Ending December 31, 2010

Line #	Rate Base @ Dec. 31, 2009 Description	[1] HBWC	[2] Adjustments	[3] Consumer Advocate Total
1	Plant In Service	\$1,873,715		\$1,873,715
2	Accumulated Depreciation	(337,956)		(337,956)
3	Net Plant-in-Service	1,535,759	0	1,535,759
	Deduct:			
4				
5	Accumulated Deferred Income Taxes	(20,243)		(20,243)
6				
7	HCGETC	(48,616)		(48,616)
8	Customer Deposits	(11,462)		(11,462)
9	CIAC	(73,009)	(63,750)	(136,760)
10	subtotal	(153,331)	(63,750)	(217,081)
	Add:			
11	Working Cash	46,071		46,071
12				0
13				
14				
15	subtotal	\$46,071	\$0	\$46,071

Rate Base @ Dec. 31, 2010

	Description	HBWC	Adjustments	Total
16	Plant In Service	\$1,915,978		\$1,915,978
17	Accumulated Depreciation	(448,579)		(448,579)
18	Net Plant-in-Service	1,467,399	0	1,467,399
	Deduct:			
19				
20	Accumulated Deferred Income Taxes	(22,525)		(22,525)
21				
22	HCGETC	(46,857)		(46,857)
23	Customer Deposits	(11,462)		(11,462)
24	CIAC	(73,307)	(56,880)	(130,187)
25	subtotal	(154,151)	(56,880)	(211,031)
	Add:			
26	Working Cash	46,071		46,071
27				0
28				
29				
30	subtotal	\$46,071	\$0	\$46,071

Hawaiian Beaches Water Company
Plant In Service
Test Year Ending December 31, 2010

Line #	Description	[1] Year Acquired	[2] Asset Life	[3] Balance as of 12/31/08	[4] 12/31/09 Additions	[5] 12/31/09 Retirements	[6] Adjustments	[7] Balance as of 12/31/09	[8] 12/31/10 Additions	[9] 12/31/10 Retirements	[10] Adjustments	[11] Test Year Balance as of 12/31/10
1	Structures	2007 & Prior		\$3,512				3,512				3,512
2	Structures	2008		2,919				2,919				2,919
3	Structures	2009			97,500			97,500				97,500
4	Wells	2009			504,128			504,128				504,128
	Piping	2009			61,973			61,973				61,973
5	Pumping Equipment	2007 & Prior		97,480				97,480				97,480
6	Pumping Equipment	2009			170,665			170,665				170,665
7	Pumping Equipment	2010						0				0
8	Water Treatment Equipment	2007 & Prior		25,626				25,626				25,626
9	Water Treatment Equipment	2008		420				420				420
10	Water Treatment Equipment	2009						0				0
11	Water Treatment Equipment	2010						0				0
12	Reservoirs & Tanks	2010			319,177			319,177				319,177
13	Mains	2007 & Prior		55,083				55,083				55,083
14	Meters & Services	2007 & Prior		176,464				176,464				176,464
15	Meters & Services	2008		210,208				210,208				210,208
16	Meters & Services	2009			50,000			50,000				50,000
17	Meters & Services	2010						0	35,263			35,263
18	Office & Shop Equipment	2007 & Prior		19,763				19,763				19,763
19	Office & Shop Equipment	2008		152				152				152
20	Office & Shop Equipment	2009			5,000			5,000				5,000
21	Office & Shop Equipment	2010						0	5,000			5,000
22	Transportation Equipment	2007 & Prior		52,613				52,613				52,613
23	Transportation Equipment	2008		6,500				6,500				6,500
24	Transportation Equipment	2009						0				0
25	Transportation Equipment	2010						0				0
26	Other Equipment	2008		4,532				4,532				4,532
27	Computer & Control Equip	2009			10,000			10,000				10,000
28	Other Equipment	2010						0	2,000			2,000
29	Total Plant in Service			\$655,272	\$1,218,443	\$0	\$0	\$1,873,715	\$42,263	\$0	\$0	\$1,915,978

Hawaiian Beaches Water Company
Accumulated Depreciation
Test Year Ending December 31, 2010

Line #	Description	[1] Year Acquired	[2] Asset Balance At 12/10	[3] Balance as of 12/31/08	[4] 12/31/09 Dep. Exp.	[5] 12/31/09 Retirements	[6] 12/31/09 Adjustments	[7] Balance as of 12/31/09	[8] 12/31/10 Dep. Exp.	[9] 12/31/10 Retirements	[10] Adjustments	[11] Test Year Balance as of 12/31/10
1	Structures	2007 & Prior	3,512	(\$3,512)	\$0			(3,512)	\$0			(3,512)
2	Structures	2008	2,919	(\$99)	(58)			(157)	(58)			(215)
3	Structures	2009	97,500		(975)			(975)	(1,950)			(2,925)
4	Wells	2009	504,128	(35)	(6,302)			(6,337)	(12,603)			(18,940)
5	Piping Equipment	2009	61,973	0	(1,239)			(1,239)	(2,479)			(3,718)
6	Pumping Equipment	2007 & Prior	97,480	(69,453)	(9,748)			(79,201)	(9,748)			(88,949)
7	Pumping Equipment	2009	170,665		(8,533)			(8,533)	(17,067)			(25,600)
8	Pumping Equipment	2010	0		0			0	0			0
9	Water Treatment Equipment	2007 & Prior	25,626	(25,926)	0			(25,926)	0			(25,926)
10	Water Treatment Equipment	2008	420	(4)	(8)			(12)	(8)			(20)
11	Water Treatment Equipment	2009			0			0	0			0
12	Water Treatment Equipment	2010	0		0			0	0			0
13	Reservoirs & Tanks	2010	319,177		(7,979)			(7,979)	(15,959)			(23,938)
14	Mains	2007 & Prior	55,083	(40,241)	(1,102)			(41,343)	(1,102)			(42,445)
15	Meters & Services	2007 & Prior	176,464	(72,557)	(11,770)			(84,327)	(11,770)			(96,097)
16	Meters & Services	2008	210,208	(5,255)	(14,021)			(19,276)	(14,021)			(33,297)
17	Meters & Services	2009	50,000		(1,668)			(1,668)	(3,335)			(5,003)
18	Meters & Services	2010	35,263		0			0	(1,176)			(1,176)
19	Office & Shop Equipment	2007 & Prior	19,763	(7,742)	(2,824)			(10,566)	(2,824)			(13,390)
20	Office & Shop Equipment	2008	152	(11)	(22)			(33)	(22)			(55)
21	Office & Shop Equipment	2009	5,000		(357)			(357)	(715)			(1,072)
22	Office & Shop Equipment	2010	5,000		0			0	(357)			(357)
23	Transportation Equipment	2007 & Prior	52,613	(31,886)	(10,523)			(42,409)	(10,523)			(52,932)
24	Transportation Equipment	2008	6,500	(650)	(1,300)			(1,950)	(1,300)			(3,250)
25	Transportation Equipment	2009	0		0			0	0			0
26	Transportation Equipment	2010	0		0			0	0			0
27	Other Equipment	2008	4,532	(453)	(453)			(906)	(906)			(1,812)
28	Computer & Control Equip	2009	10,000		(1,250)			(1,250)	(2,500)			(3,750)
29	Other Equipment	2010	2,000		0			0	(200)			(200)
30	Total Plant in Service		\$1,915,978	(\$257,824)	(\$80,132)	\$0	\$0	(\$337,956)	(\$110,623)	\$0	\$0	(\$448,579)

Hawaiian Beaches Water Company Depreciation Expense (Book) Test Year Ending December 31, 2010										
Line #	Description	[1] Ref:	[2] In-service date	[3] Total Cost 12/31/10	[4] Depreciation Expense Rate	[5] Acc. Dep. Balance as of 12/31/08	[6] 2009 Depreciation Expense	[7] Acc. Dep. Balance as of 12/31/09	[8] 2010 Depreciation Expense	[9] Test Year Acc. Dep. Balance as of 12/31/10
	One-Half on 2009 Additions						50%		50%	
	One-Half on 2010 Additions									
1	Structures		2007 & Prior	\$3,512	2.00%	\$3,512		\$3,512		\$3,512
2	Structures		2008	2,919	2.00%	99	58	157	58	215
3	Structures		2009	97,500	2.00%	0	975	975	1,950	2,925
4	Wells		2009	504,128	2.50%	35	6,302	6,337	12,603	18,940
5	Piping		2009	61,973	4.00%	0	1,239	1,239	2,479	3,718
5	Pumping Equipment		2007 & Prior	97,480	10.00%	69,453	9,748	79,201	9,748	88,949
6	Pumping Equipment		2009	170,665	10.00%	0	8,533	8,533	17,067	25,600
7	Pumping Equipment		2010	0	10.00%	0	0	0	0	0
8	Water Treatment Equipment		2007 & Prior	25,626	2.00%	25,926	0	25,926	0	25,926
9	Water Treatment Equipment		2008	420	2.00%	4	8	12	8	20
10	Water Treatment Equipment		2009		5.00%	0	0	0	0	0
11	Water Treatment Equipment		2010	0	5.00%	0	0	0	0	0
12	Reservoirs & Tanks		2009	319,177	5.00%	0	7,979	7,979	15,959	23,938
13	Mains		2007 & Prior	55,083	2.00%	40,241	1,102	41,343	1,102	42,445
14	Meters & Services		2007 & Prior	176,464	6.67%	72,557	11,770	84,327	11,770	96,097
15	Meters & Services		2008	210,208	6.67%	5,255	14,021	19,276	14,021	33,297
16	Meters & Services		2009	50,000	6.67%	0	1,668	1,668	3,335	5,003
17	Meters & Services		2010	35,263	6.67%	0	0	0	1,176	1,176
18	Office & Shop Equipment		2007 & Prior	19,763	14.29%	7,742	2,824	10,566	2,824	13,390
19	Office & Shop Equipment		2008	152	14.29%	11	22	33	22	55
20	Office & Shop Equipment		2009	5,000	14.29%	0	357	357	715	1,072
21	Office & Shop Equipment		2010	5,000	14.29%	0	0	0	357	357
22	Transportation Equipment		2007 & Prior	52,613	20.00%	31,886	10,523	42,409	10,523	52,932
23	Transportation Equipment		2008	6,500	20.00%	650	1,300	1,950	1,300	3,250
24	Transportation Equipment		2009	0	20.00%	0	0	0	0	0
25	Transportation Equipment		2010	0	20.00%	0	0	0	0	0
26	Other Equipment		2008	4,532	20.00%	453	453	906	906	1,812
27	Computer & Control Equip		2009	10,000	25.00%		1,250	1,250	2,500	3,750
28	Other Equipment		2010	2,000	20.00%			0	200	200
29	Total Plant in Service			\$1,915,978		\$257,824	\$80,132	\$337,956	\$110,623	\$448,579

Hawaiian Beaches Water Company
HCGETC
Test Year Ending December 31, 2010

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
Line #	Description	Depreciation Rate	Plant Additions	Plant Not Eligible	Net Plant For HCGETC	HCGETC Credits	Annual Amortization of HCGETC	Acc. Amort. Balance as of 12/31/08	2009 Amortization	Acc. Amort. Balance as of 12/31/09	2010 Amortization	Test Year Acc. Amort. Balance as of 12/31/10
						<u>4.0%</u>						
				<u>70.0%</u>								
2008 Plant Additions												
1												
2	Meters & Installations	6.67%	\$210,208	(\$147,146)	\$63,062	<u>\$2,522</u>	168	84	168	252	168	421
3	Total 2008					<u>\$2,522</u>						
2009 Plant Additions												
4	Meters & Installations	6.67%	\$50,000	(35,000)	\$15,000	600	40		20	20	40	60
5	Structures	2.00%	\$97,500		\$97,500	3,900	78		39	39	78	117
6	Well	2.50%	\$504,128		\$504,128	20,165	504		252	252	504	756
7	Storage	5.00%	\$319,177		\$319,177	12,767	638		319	319	638	958
8	Piping	4.00%	\$61,973		\$61,973	2,479	99		50	50	99	149
9	Pumping Equipment	10.00%	\$170,665		\$170,665	6,827	683		341	341	683	1,024
10	Water Treatment	5.00%			\$0	0	0		0	0	0	0
11	Office & Shop	14.29%	\$5,000		\$5,000	200	29		14	14	29	43
12	Other Equipment	20.00%	\$10,000		\$10,000	400	80		40	40	80	120
13	Total 2009					<u>47,338</u>						
2010 Plant Additions												
14	Meters & Installations	6.67%	\$35,263	(\$25,263)	\$10,000	400	27				13	13
15	Office & Shop	14.29%	\$5,000		\$5,000	200	29				14	14
16	Other Equipment	20.00%	\$2,000		\$2,000	80	16				8	8
17	Total 2010					<u>680</u>						
			<u>\$1,470,914</u>									
18	Total					<u>\$ 50,540</u>	<u>\$ 2,390</u>	<u>\$ 84</u>	<u>\$ 1,244</u>	<u>\$ 1,328</u>	<u>\$ 2,355</u>	<u>\$ 3,683</u>
19	Unamortized Balance at EOY						<u>\$ 2,438</u>			<u>\$ 48,616</u>		<u>\$ 46,857</u>

Hawaiian Beaches Water Company Accumulated Deferred Income Taxes Test Year Ending December 31, 2010												
Line #	Description	(1) Year Acquired	(2) Asset Tax Life	(3) Total Cost At 12/31/10	(4) Tax Depreciation Method	(5) Acc. Tax Dep. Balance as of 12/31/08	(6) Tax Depreciation 2009	(7) Adjustments 2009	(8) Acc. Tax Dep. Balance as of 12/31/09	(9) Tax Depreciation 2010	(10) Adjustments 2010	(11) Test Year Acc. Tax Dep. Balance as of 12/31/10
1	Structures	2007 & Prior		3,512		18	0		0			0
2	Structures	2008		2,919		28	0		18			18
3	Structures	2009		97,500					28	0		28
4	Wells	2009		504,128			0		0			0
5	Pumping Equipment	2007 & Prior		97,480		62,423	0		0			0
6	Pumping Equipment	2009		170,665			0		62,423	0		62,423
7									0	0		0
8	Water Treatment Equipment	2007 & Prior		25,626		25,029	0		0			0
9	Water Treatment Equipment	2008		420		221	0		25,029	0		25,029
10	Water Treatment Equipment	2009		0			0		221	0		221
11	Water Treatment Equipment	2010		0			0		0	0		0
12	Reservoirs & Tanks	2009		319,177			0		0			0
13	Mains	2007 & Prior		55,083		38,296	0		0			0
14	Meters & Services	2007 & Prior		176,464		56,439	0		38,296	0		38,296
15	Meters & Services	2008		210,208		110,657	0		56,439	0		56,439
16	Meters & Services	2009		50,000		0	0		110,657	0		110,657
17	Meters & Services	2010		35,263			0		0	0		0
18	Office & Shop Equipment	2007 & Prior		19,763		5,074	0		0			0
19	Office & Shop Equipment	2008		152		80	0		5,074	0		5,074
20	Office & Shop Equipment	2009		5,000			0		80	0		80
21	Office & Shop Equipment	2010		5,000			0		0	0		0
22	Transportation Equipment	2007 & Prior		52,613		25,694	0		0			0
23	Transportation Equipment	2008		6,500		2,275	0		25,694	0		25,694
24	Transportation Equipment	2009		0			0		2,275	0		2,275
25	Transportation Equipment	2010		0			0		0			0
26	Other Equipment	2008		4,532		2,386	0		0			0
27	Computer & Control Equip	2009		10,000			0		2,386	0		2,386
28	Other Equipment	2010		2,000			0		0	0		0
29	Other Tax Depreciation					800	0		0			800
30	Needed to Balance Tax Depr At 12-31-06					0	0		0	0		0
31	Tax Depr on Plant Pre 2008					8,330	0		0			0
	Accelerated Income Tax Depreciation						83,401		8,330	0		8,330
32	TOTAL			\$1,854,005		\$337,750	\$83,401	\$0	\$83,401	\$120,000	\$0	\$541,151
33	Accumulated Book Depreciation					257,824			337,956			448,579
34	Excess Tax Over (Under) Book					79,926			83,195			92,572
35	Composite Income Tax Rate					24.332%			24.332%			24.332%
36	ADIT Balance					\$19,448			\$20,243			\$22,525

Hawaiian Beaches Water Company
CIAC
Test Year Ending December 31, 2010

		[1]	[2]	[3]	[4]
Line #	Description	Rate Or Factor	Amount	Total CIAC	Unamortized CIAC
1	Balance At 12-31-06 (Settlement)				\$44,576
2	CIAC Prior To 12-31-06			\$68,505	
3	CIAC in 2007	\$1,500	56	84,000	\$84,000
4	Amortization of CIAC @ 12-06	6.7%	\$4,569		
5	Amortization of 2007 CIAC	6.7%	\$2,801		
6	2007 Amortization				7,371
7	Balance At 12-31-07			152,505	121,205
8	CIAC in 2008	\$1,500	18	27,000	27,000
9	Amortization of CIAC @ 12-06	6.7%	\$4,569		
10	Amortization of 2007 CIAC	6.7%	\$5,603		
11	Amortization of 2008 CIAC	6.7%	\$900		
12	2008 Amortization				11,073
13	Balance At 12-31-08			\$179,505	\$137,133
14	CIAC in 2009	\$1,500	8	12,000	12,000
15	Amortization of CIAC @ 12-06	6.7%	\$4,569		
16	Amortization of 2007 CIAC	6.7%	\$5,603		
17	Amortization of 2008 CIAC	6.7%	\$1,801		
18	Amortization of 2009 CIAC	6.7%	\$400		
18	2009 Amortization				12,373
19	Balance At 12-31-09			\$191,505	\$136,760
20	CIAC in 2010	\$1,500	4	6,000	6,000
21	Amortization of CIAC @ 12-06	6.7%	\$4,569		
22	Amortization of 2007 CIAC	6.7%	\$5,603		
23	Amortization of 2008 CIAC	6.7%	\$1,801		
24	Amortization of 2009 CIAC	6.7%	\$400		
	Amortization of 2010 CIAC	6.7%	\$200		
25	2010 Amortization				12,573
24	Balance At 12-31-10			\$197,505	130,187

Hawaiian Beaches Water Company
Working Cash
Test Year Ending December 31, 2010

[1]

Line #	Description	Amount
1	Purchased Electricity	104,400
2	Salaries & Wages	222,477
3	Employee Benefits & PR Taxes	57,377
4	Accounting	14,000
5	Insurance	31,604
6	Auto & Truck Expense	15,000
7	Postage	6,000
8	Legal & Professional	2,000
9	Communications	6,400
10	Office Supplies Expense	23,400
11	Rate Case Amortization	69,800
12	Repair & Maintenance	4,400
13	Bad Debt Expense	0
14	Capitalized Non-Payroll Expenses	(4,000)
15		
16		
17	subtotal	552,858
18	Working Cash factor	12
19	Working Cash	46,071

HBWC
RATE OF RETURN

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Line #	Description	[1]	[2]	[3]
		Percent of Capital Structure	Cost Rate	Rate of Return
1	EQUITY	50.00%	9.60%	4.80%
2	DEBT	50.00%	7.00%	3.50%
3	TOTAL	<u>100.00%</u>		<u>8.30%</u>

COST OF EQUITY

4	Mid-Point of Mr. Parcell's ROE in Docket No. 2008-0283 Based on Proxy Group	9.50%
5	Adjustment for settlement purposes for HBWC	0.10%
6	Total Cost of Equity	<u>9.60%</u>

EXHIBIT HBWC-C

HAWAIIAN BEACHES WATER COMPANY
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SETTLEMENT

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
		COMPANY AS FILED						CONSUMER ADVOCATE					
Line #	Description	As Filed At Present Rates	Revenue Increase	As Filed At Proposed Rates	Settlement Adjustments	Settlement Amounts	Difference	Settlement Amounts	Settlement Adjustments	As Filed At Proposed Rates	Revenue Increase	As Filed At Present Rates	
REVENUES													
1	Flat Rate Monthly Charges	\$ 636,132	\$ (636,132)	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ (636,120)	\$ 636,120	
2	APCAC Revenue												
3	Monthly Customer Charges		397,080	397,080		397,080	-	397,080		397,080	397,080		
4	Customer Usage Charges		549,354	549,354	(79,818) A	469,536	-	469,536	14,532 aa	455,004	455,004		
5													
6	Other Revenue	3,000		3,000		3,000	-	3,000		3,000		3,000	
7	TOTAL REVENUES	Sum L1 to L 6	639,132	310,302	949,434	(79,818) 230,484	869,616	-	869,616	14,532 230,496	855,084	215,964	639,120
OPERATIONS & MAINTENANCE EXP													
8	Electricity Expense	104,400		104,400		104,400	-	104,400		104,400		104,400	
9	Salaries & Wages	228,032		228,032	(5,555) B	222,477	-	222,477		222,477		222,477	
10	Employee Benefits & PR Taxes	57,391		57,391	(14) C	57,377	-	57,377		57,377		57,377	
11	Accounting	14,000		14,000		14,000	-	14,000		14,000		14,000	
12	Insurance	31,604		31,604		31,604	-	31,604		31,604		31,604	
13	Auto & Truck Expense	15,000		15,000		15,000	-	15,000		15,000		15,000	
14	Postage	6,000		6,000		6,000	-	6,000		6,000		6,000	
15	Legal & Professional	2,000		2,000		2,000	-	2,000		2,000		2,000	
16							-						
17	Communications	6,400		6,400		6,400	-	6,400		6,400		6,400	
18	Office Supplies & Expense	23,400		23,400		23,400	-	23,400		23,400		23,400	
19	Rate Case Amortization	96,000		96,000	(26,200) D	69,800	-	69,800		69,800		69,800	
20	Repair & Maintenance	4,400		4,400		4,400	-	4,400		4,400		4,400	
21	Bad Debt Expense	-		-		-	-	-		-		-	
22	Capitalized Non-Payroll Expense	(4,000)		(4,000)		(4,000)	-	(4,000)		(4,000)		(4,000)	
23							-						
24	TOTAL O&M EXPENSE	Sum L8 to L26	584,627	-	584,627	(31,769)	552,858	-	552,858	-	552,858	-	552,858
25	Taxes on Revenue	6.385%	40,809	19,812	60,621	(5,100) E	55,521	-	55,521	924 bb	54,597	13,789	40,808
26	Depreciation		118,237		118,237	(7,614) F	110,623	-	110,623	9,813 cc	100,810		100,810
27	Amortization of CIAC		(5,703)		(5,703)	(6,870) G	(12,573)	-	(12,573)		(12,573)		(12,573)
28							-						
29	OPERATING INCOME BIT	L5-L27 to L30	(98,838)	290,490	191,652	(28,465)	163,187	-	163,187	3,795	159,392	202,175	(42,783)
30	Income Taxes		24,893	(89,607)	(64,714)	12,213 H	(52,501)	-	(52,501)	(1,628) dd	(50,873)	(50,873)	-
31	NET OPERATING INCOME	L 31 + L 32	\$ (73,945)	\$ 200,883	\$ 126,938	\$ (16,252)	\$ 110,686	\$ -	\$ 110,686	\$ 2,167	\$ 108,519	\$ 151,302	\$ (42,783)
AVERAGE RATE BASE													
32	Plant in Service	1,894,848		1,894,848		1,894,848	-	1,894,848		1,894,848		1,894,848	
33	Accumulated Depreciation	(400,883)		(400,883)	7,615 I	(393,268)	-	(393,268)	(9,812) ee	(383,456)		(383,456)	
34	Net Plant	1,493,965	-	1,493,965	7,615	1,501,580	-	1,501,580	(9,812)	1,511,392	-	1,511,392	
35	ADIT	(27,104)		(27,104)	5,720 J	(21,384)	-	(21,384)	3,201 ff	(24,585)		(24,585)	
36	HCGETC	(20,944)		(20,944)	(26,793) K	(47,737)	-	(47,737)	392 gg	(48,129)		(48,129)	
37	Customer Deposits	(11,462)		(11,462)		(11,462)	-	(11,462)		(11,462)		(11,462)	
38	CIAC	(73,158)		(73,158)	(60,315) L	(133,473)	-	(133,473)		(133,473)		(133,473)	
39	Working Capital	8.3333%	48,719		48,719	(2,648) M	46,071	-	46,071	-	46,071	-	46,071
40	Average Test Year Rate Base	\$ 1,410,016	\$ -	\$ 1,410,016	\$ (76,421)	\$ 1,333,595	\$ -	\$ 1,333,595	\$ (6,219)	\$ 1,339,814	\$ -	\$ 1,339,814	
41	Rate of Return	-5.24%		9.00%		N 8.30%		8.30%	hh	8.10%		-3.19%	

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Exhibit HBWC - C
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SETTLEMENT

HBWC Adjustments

Line #	Description	[1] Reference Or Factor	[2] Amount	[3] Amount	[4] Total
<u>COMPANY SETTLEMENT ADJUSTMENTS</u>					
<u>A. CUSTOMER USAGE CHARGE REVENUE</u>					
1	Change in revenue increase related to customer usage to reflect Settlement				\$ (79,818)
<u>B. SALARIES & WAGES</u>					
2	Adopt CA adjustment to remove S&W increase at 1-1-10				
3	CA as filed	HBWC A, pg 6		\$ 222,477	
4	HBWC as filed	HBWC 10.1		228,032	
5	Adjustment	L 3 - L 4			\$ (5,555)
<u>C. EMPLOYEE BENEFITS & PR TAXES</u>					
6	Adopt CA adjustment to remove PR Tax on S&W Adj				
7	CA as filed	HBWC A, pg 7		\$ 57,377	
8	HBWC as filed	HBWC 10.2		57,391	
9	Adjustment	L 7 - L 8			\$ (14)
<u>D. RATE CASE AMORTIZATION</u>					
10	Adopt CA Adjustment for Rate Case Expense				
11	---Reduce Preparation Phase to reflect Actual Expense		\$ 7,400		
12	---Remove Material & Travel cost from Discovery and Settlement Phase		2,000		
13	---Remove all cost from Hearing and Briefing Phase		43,000		
14	Total Adjusted Costs	Sum L 9 to L 11		\$ 52,400	
15	Annual Amortization using 2-year period	L 12 / 2			\$ (26,200)
<u>E. TAXES ON REVENUE</u>					
16	To reflect reduction in Taxes on Revenue related to the reduction in Revenue from Adjustment A above	Revenue * .6385%			\$ (5,100)
<u>F. DEPRECIATION EXPENSE</u>					
17	Adjust to reflect use of EPA depreciation lives for components of Well and Tank installed in 2009 as shown on Settlement Exhibit HBWC - B, page 5, column 8				
18	Settlement Calculation	HBWC B, pg 5, col 8		\$ 110,623	
19	HBWC as filed	HBWC 9.5		118,237	
20	Adjustment	L 18 - L 19			\$ (7,614)
<u>G. AMORTIZATION OF CIAC</u>					
21	Adjustment to CIAC amortization to reflect the adjustment to CIAC adopted in Adjustment L				
22	CA as filed	HBWC B, pg 7		\$ (12,573)	
23	HBWC as filed	HBWC 9.7		(5,703)	
24	Adjustment	L 16 - L 17			\$ (6,870)

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HBWC Adjustments		[1]	[2]	[3]	[4]
Line #	Description	Factor	Amount	Amount	Total
<u>COMPANY SETTLEMENT ADJUSTMENTS</u>					
<u>H. INCOME TAX EXPENSE</u>					
25	Change in income tax expense related to the changes in revenue and expense				
26	Settlement Calculation	HBWC A, pg 3	\$ (52,501)		
27	HBWC as filed	HBWC 8.5	(64,714)		
28	Adjustment	L 18 - L 19			<u>\$ 12,213</u>
<u>I. ACCUMULATED DEPRECIATION</u>					
29	Impact on Accumulated Depreciation from Depreciation Expense adjustment in Adjustment F above				
30	Settlement Calculation	HBWC B, pg 1	\$ (393,268)		
31	HBWC as filed	HBWC 9	(400,883)		
32	Adjustment	L 18 - L 19			<u>\$ 7,615</u>
<u>J. ACCUMULATED DEFERRED INCOME TAX (ADIT)</u>					
33	Impact on ADIT from Depreciation Expense adjustment and change in effective income tax rate				
34	Settlement Calculation	HBWC B, pg 1	\$ (21,384)		
35	HBWC as filed	HBWC 9	(27,104)		
36	Adjustment	L 18 - L 19			<u>\$ 5,720</u>
<u>K. HAWAII CAPITAL GOODS EXCISE TAX CREDIT (HCGETC)</u>					
37	Correct calculation of HCGETC and related amortization to reflect inclusion of Well and Storage Tank				
38	Settlement Calculation	HBWC B, pg 1	\$ (47,737)		
39	HBWC as filed	HBWC 9	(20,944)		
40	Adjustment	L 18 - L 19			<u>\$ (26,793)</u>
<u>L. CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)</u>					
41	Correct CIAC balance for Test Year				
42	Settlement Calculation	HBWC B, pg 1	\$ (133,473)		
43	HBWC as filed	HBWC 9	(73,158)		
44	Adjustment	L 18 - L 19			<u>\$ (60,315)</u>
<u>M. WORKING CAPITAL</u>					
42	Impact on Working Capital of adjustments to Test Year expenses	Expense Changes Times .083333			
					<u>\$ (2,648)</u>
<u>N. RATE OF RETURN</u>					
43	Reduce Return on Equity to reflect Settlement level of 9.6% and a resulting Rate of Return of 8.30%				<u>8.30%</u>

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SETTLEMENT

Consumer Advocate Adjustments

Line #	Description	[1] Reference Or Factor	[2] Amount	[3] Amount	[4] Total
COMPANY SETTLEMENT ADJUSTMENTS					
aa. CUSTOMER USAGE CHARGE REVENUE					
1	Change in revenue increase related to customer usage to reflect Settlement				\$ 14,532
bb. TAXES ON REVENUE					
2	To reflect reduction in Taxes on Revenue related to the reduction in Revenue from Adjustment A above	Revenue * .6385%			\$ 924
cc. DEPRECIATION EXPENSE					
3	Adjust to reflect use of EPA depreciation lives for components of Well and Tank installed in 2009 as shown on Settlement Exhibit HBWC - B, page 5, column 8				
4	Settlement Calculation	HBWC B, pg 5, col 8		\$ 110,623	
5	CA as filed	CA		100,810	
6	Adjustment	L 4 - L 5			\$ 9,813
dd. INCOME TAXES					
7	Change in income tax expense related to the changes in revenue and expense				
8	Settlement Calculation	HBWC A, pg 3		\$ (52,501)	
9	CA as filed	CA		(50,873)	
10	Adjustment	L 9 - L 8			\$ (1,628)
ee. ACCUMULATED DEPRECIATION					
11	Impact on Accumulated Depreciation from Depreciation Expense adjustment in Adjustment cc above				
12	Settlement Calculation	HBWC B, pg 1		\$ (393,268)	
13	HBWC as filed	CA		(383,456)	
14	Adjustment	L 12 - L 13			\$ (9,812)
ff. ACCUMULATED DEFERRED INCOME TAX (ADIT)					
15	Impact on ADIT from Depreciation Expense adjustment and change in effective income tax rate				
16	Settlement Calculation	HBWC B, pg 1		\$ (21,384)	
17	HBWC as filed	CA		(24,585)	
18	Adjustment	L 16 - L 17			\$ 3,201
gg. HAWAII CAPITAL GOODS EXCISE TAX CREDIT (HCGETC)					
19	Correct calculation of HCGETC and related amortization to reflect reclassification of portions of Well and Storage Tank				
20	Settlement Calculation	HBWC B, pg 1		\$ (47,737)	
21	HBWC as filed	CA		(48,129)	
22	Adjustment	L 20 - L 21			\$ 392
hh. RATE OF RETURN					
23	Reduce Return on Equity to reflect Settlement level of 9.6% and a resulting Rate of Return of 8.30%				8.30%

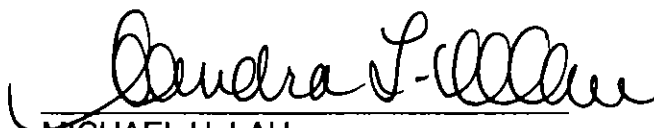
CERTIFICATE OF SERVICE

I (we) hereby certify that copies of the foregoing document were duly served on the following party, by having said copies delivered as set forth below:

MS. CATHERINE P. AWAKUNI
Executive Director
Department of Commerce and Consumer Affairs
Division of Consumer Advocacy
335 Merchant Street, Room 326
Honolulu, Hawaii 96813

3 COPIES
VIA HAND DELIVERY

DATED: Honolulu, Hawaii, November 23, 2009.

A handwritten signature in black ink, appearing to read "Sandra L. Wilhide", is written over a horizontal line.

MICHAEL H. LAU
KRIS N. NAKAGAWA
SANDRA L. WILHIDE

Morihara Lau & Fong LLP
Attorneys for Applicant
HAWAIIAN BEACHES WATER
COMPANY, LTD.